ROJECTING DIVERGENT MARKET PATTERNS

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

Y 7, 1945 50 CENTS

--- Economic - Social Implications In

Decentralization Trends In American Industry

By E. A. Krauss

★

Opportunities and Hazards In The Gold Stocks

By Richard Colston

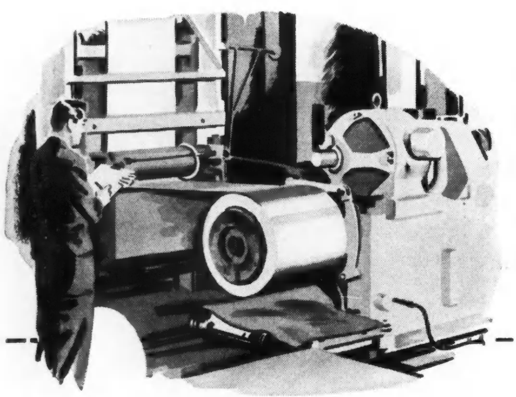
★

Dominant Role for U. S. In World Post-War Shipping?

By John C. Cresswill

In an Army tank a GUNNER fires with deadly accuracy – while charging across rough terrain – because of a gun stabilizer, officially recognized as one *outstanding advantage* of our tanks over those of the enemy.

... the name on the GUN STABILIZER is Westinghouse.

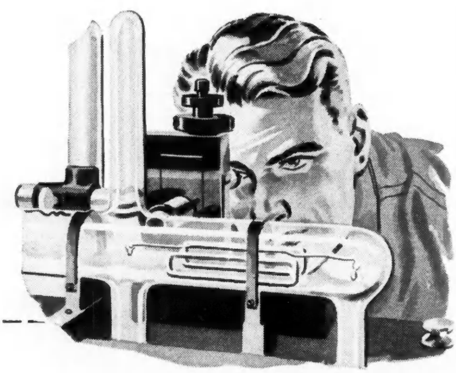


In a steel mill an ENGINEER uses an induction heater to fuse a mirror-like surface on dull electrolytic tin plate – helping to conserve *two-thirds* of our war-scarce tin supply.

... the name on the INDUCTION HEATER is Westinghouse.

In a laboratory a SCIENTIST uses a micro-balance to weigh a *single layer of oxygen atoms*, 1/50,000,000th ounce, to determine the corrosion resistance of special alloys at high temperatures.

... the name on the MICRO-BALANCE is Westinghouse.



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... the name on the ELECTRIC MOTOR is Westinghouse.

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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Volume 76, No. 7 — July 7, 1945

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(Cover Photograph by Robert E. Coates. The Grace Line)

C. G. Wyckoff, President and Treasurer; E. A. Krauss, Managing Editor; Eugene J. Foley, Vice President; Arthur G. Gaines, Secretary; B. L. Wilson, Magazine Production Manager. The information herein is obtained from reliable sowress and while not guaranteed we believe it to be accurate. Single copies on newsstands in U. S. 50 cents, Canada, 55 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE—$10.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, B. C. 4, England.

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

E. A. KRAUSS, *Managing Editor*

The Trend of Events

SHIFT IN LABOR POLICY . . . The proposal of a new Federal Industrial Relations Act, jointly sponsored by a bipartisan group of Senators and the Committee to Promote Industrial Peace headed by Donald A. Richberg apparently is the opening move in the fight for a long overdue revision of the National Labor Relations Act. While the new bill doubtless will undergo considerable change as it proceeds through Congress, it should offer a useful means for a review of the many controversial labor issues that have beset industry for years.

Congress now is being asked to write into law an entirely new series of controls over relations between employers and workers; they are designed to curb strikes, to make management and labor jointly responsible for the maintenance of industrial peace to a much larger degree than heretofore by giving them greater authority to settle their disputes. To that end, the bill provides for increased reliance on compulsory arbitration. And recognizing that management and labor should have more equal rights than under the Wagner Act, the bill proposes raising employer's rights to the same level as those of the workers. In addition, the proposed legislation would consolidate many labor relations controls which are now handled by a multiplity of Government agencies and Government divisions. What is suggested, in short, is a comprehensive plan for industrial harmony, a blueprint for industrial peace designed to bring "the rule of law and order instead of the rule of fists and force" in the difficult days ahead.

This is all to the good. We have long been in need of an effective national labor policy, and we shall need it more than ever in the forthcoming transitional era when unwarranted labor strife could seriously interfere with smooth reconversion, jeopardizing our chances of economic stability at a time when such stability is needed most.

The proposal appears headed for rough going in Congress, especially since it would change the Wagner Act almost beyond recognition. But whatever its ultimate form, any delay in enactment will provide both management and labor with an ample opportunity to study and weigh the various recommendations and establish areas of agreement. On the whole, the finished product should constitute a step forward towards more harmonious labor relations, provided the bill is not emasculated to an extent that would defeat its very purpose.

Latest events on the labor front spotlight the crying need for constructive action. Strikes and plant seizures have been piling up. Industrial centers such as Detroit and Akron have been seething with labor difficulties. With reconversion at hand, it is none too soon to have things straightened out.

RECONVERSION SPENDING . . . In industrial quarters there is much concern lest relaxation of restric-

tions and availability of materials for civilian production prove inadequate to fill the voids left by cutbacks and cancellations rapidly enough. In the face of such fears of business hesitation and resultant unemployment, there comes a Department of Commerce survey showing that American industry plans to spend $4.5 billion for plants, equipment and alterations in the twelve months beginning July 1. This is particularly encouraging.

Such a volume of private capital expenditures would be nearly three times the prewar average and far above the 1929 peak of $2.75 billion. The total however would still be well below the combined public and private outlays made during the peak war years.

Nearly 30% of the planned capital outlays would be for plant, that is roughly three times the prewar average and about 35% above the 1929 peak. Over 50% of the expenditures would be for machinery and equipment, or about 75% above the prewar average and about 35% above 1929. Also there would be a rather large expenditure for alterations, a logical expectation during the reconversion period. The survey further disclosed that in every industry group, planned outlays will be well above 1939, with increases expected in both war and non-war industries.

All these estimates are based on definite plans, indicative of the fact that business and industry are ready, even eager to spend and construct at a high rate. Some are inclined to question whether they will be able to achieve their full objective as represented by the survey, contending that it seems highly improbable that adequate labor and materials will be available for the production of so large a total of capital goods.

COOLING BREEZE . . . The recent statement of Federal Reserve Board Chairman Mariner S. Eccles on postwar employment goals felt like a cooling breeze on a sultry summer day. In what constitutes a particularly apt criticism of the pending Murray Full Employment bill, he represents the viewpoint that in planning for the postwar, more stress should be placed on economic stability and less on Government deficit financing to maintain maximum employment. The way to maintain economic stability, he avers, is to permit production and employment to recede from the abnormally high wartime levels rather than to attempt to sustain those levels indefinitely by Government spending.

This is sound advice. Our wartime economy is not a healthy one but has been overstimulated by Government spending at the rate of almost $100 billions annually, financed in large part with borrowed money. To perpetuate such an economy would not only head us straight towards inflation but could not be accomplished without a degree of regimentation and control that would hardly be tolerated in peacetime. At any rate, as Mr. Eccles points out, it would be inconsistent with a democratic, free enterprise.

Past experience has proved that Mr. Eccles is right in urging economic stabilization at levels lower than the exaggerated wartime volume of production and employment. Having long been a crusader for economic stability through curbing booms and through measures of business stimulation in periods of depression, he advocates that the Government be primarily concerned with such measures and policies as would create a favorable climate for private enterprise and private employment, and would prevent the irreparable losses resulting from inflation and deflation. In the long run this seems the only practical method promising worthwhile results. An artificially stimulated high-level economy, apart from courting uncontrollable inflation and subsequent economic collapse, could hardly be long sustained.

PRICE CONTROL . . . Debate in Congress and lively discussion elsewhere of the question of extending emergency price control has brought out divergence of opinion as to its past effectiveness but fortunately —and logically—there is widespread recognition of the advantages of a stable price structure. It could hardly be otherwise if we compare, for instance, the relative price stability we enjoyed during the present war with the strikingly contrasting World War 1 experience. Thus while complete abandonment of direct price control is advocated in some quarters, such a proposal has found very little support. The evils of violent price fluctuations are too well known—and too much feared. It is only common sense that everything be done to avoid their disurptive consequences, the hardships and injustices they would impose on wide segments of our population.

Thus there is little need to stress the desirability if not absolute necessity to continue price control so long as it is urgently required for economic stability but there is less agreement on how long, and to what extent, that need may exist. Criticism has particularly been directed at the broad program announced by the OPA for the pricing of civilian goods that will begin to flow from reconverted industries in the months ahead. Behind it lurks the fear of price control well into the transitional era, even into the immediate years following global peace.

In this respect, OPA's declared readiness to lift price controls just as soon as feasible is reassuring. The agency has gone so far as to set up tentative schedules for "decontrol" without, however, announcing specific dates, something that is hardly practical at this time. However tentative, they provide a rough guide to what may be expected. First to be freed are basic materials whose output has been greatly expanded during the war. In the second group are steel, machinery, household goods, clothes, shoes, meats and processed foods. The last group from which controls are to be lifted includes such things as building materials, household appliances, automobiles and furniture, all articles for which deferred demand is large and therefore the prospective pressure against prices most pronounced and conceivably of longest duration. Most important of course is the time factor, contingent on availability of manpower and materials permitting adequate production to avoid soaring prices when controls are ultimately lifted.

As I See It!

BY ROBERT GUISE

FAR EASTERN PROBLEMS

LATEST developments in the Pacific war, and Japan's reaction to them, are spotlighting that country's desperate situation. With the successful conclusion of the Okinawa campaign, our bombers will roost virtually at Japan's doorstep. The Philippines are all but retaken, Burma is practically lost to Japan and Borneo is slipping fast from the Nipponese grasp. The Japanese fleet has been severely weakened, the airforce has sufferd crippling losses. The blockade around the Japanese home islands is progressively tightening and Japan's cities are battered in a crescendo of allied bombing, political effects of which are unpredictable. Slowly but steadily Japan's industrial potential is being ground to dust.

Increasingly, Japan's population is experiencing the rigors of "cooperative living," a euphamism for a life of strictest regimentation and severe hardships. The Japanese people, we hear, have become extremely war weary and would gladly welcome peace. And now, to complete the noose that is being fashioned around Japan's "inner fortress," American fleet units have begun to prowl the North Pacific, threatening Paramushiru, Japan's airbase island in the Kuriles and apparently getting ready not only for intensified blockade activities but for a pincer movement that may ultimately spell invasion of the Japanese islands both from the north and the south. Japanese military leaders are turning nervous attention towards the Aleutians, fearful of an impending blow from that direction.

"RADIO TOKYO"

The Chicago Times

"No B-29—it's just another dishonorable earthquake!"

Clearly, Japan's military position is hopeless and probably no one realizes this more than her own leaders, despite much boastful talk. Hope of victory is irretrievably lost; if they nevertheless fight on, it must be with the thought of salvaging something from the inevitable debacle. Such thoughts found reflection in apparent Japanese peace feelers, insistently reported despite formal denials from both sides, offers which reputedly amounted almost but not quite to unconditional surrender. They were said to have been rejected but as Japan's position continues to deteriorate, new offers may be anticipated. It would seem illogical to assume that Japan will go through with her avowed intention of resisting to the extent of committing national hara kiri, courting not only complete destruction but virtually throwing away every chance of eventual revival.

Under the circumstances it is a logical expectation that she will continue to strive for some sort of settlement. But even if she were ultimately ready for unconditional surrender, negotiation of a surrender agreement appears complicated by a good many questions involving more than just our own decisions. Directly involved are not only Chinese and British interests but above all there is the Russian angle, adding a good deal of complexity to an already involved situation. Clearly, though we are carrying the main burden of the war against Japan, it can hardly be ignored,

Russia is determined to gain new spheres of interests in the Far East; her claims to Manchuria and even Korea are well known. But China, too, has vital interests there and she is reported fearful of concessions to Russia at her expense. As far as Japan is concerned, her fear of Russia is such that she would rather see Manchuria revert to China but obviously, Japanese preferences count nothing at this stage.

But Russian and Chinese ideas as to the kind of Far Eastern settlement that should follow defeat of Japan cannot be shrugged off so easily, and the forthcoming visit to Moscow of China's Premier T. V. Soong may result in some clarification of the outlook. Ostensible object of the visit is discussion of the Soviet attitude towards the Chinese Communists and such matters as the position of Russian-dominated Outer Mongolia but (*Please turn to page* 333)

Projecting Divergent Market Patterns

Recent market tendencies have been increasingly speculative, but it is still an open question whether a correction of more than minor scope will develop out of last week's relapse or come from a somewhat higher level. Either way, we continue to recommend a conservatively selective investment policy.

BY A. T. MILLER

Especially in fairly recent weeks professional opinion has leaned rather strongly toward expectation of an important market decline "before long." The reasoning behind this view emphasizes on the one hand the advanced level of the averages in the this fourth year of the bull market and, on the other hand, the coming "reconversion deflation" of production, national income and corporate earnings. For a time last week, as the market declined sharply on heavy volume, it seemed that an intermediate reaction of some severity was probably in the making. That still may be so, but as this analysis is written the technical evidence is not conclusive.

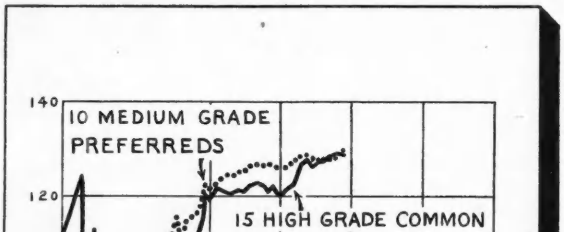
After a two-day break which took the Dow industrial average down about 5 points from its height—and the rails off more sharply on a percentage basis—the pressure let up and the week ended on a rallying note which has continued to this writing. Moreover, more stock groups continued their individual bull markets, with scarcely any interruption, than has usually been seen during important phases of general-market reaction. Thus, a week which in any event raises a question as to whether the traditional "summer advance" has culminated, ended with our indexes at new bull market highs for the aircrafts, air lines, food brands stocks, liquors, textiles and utilities.

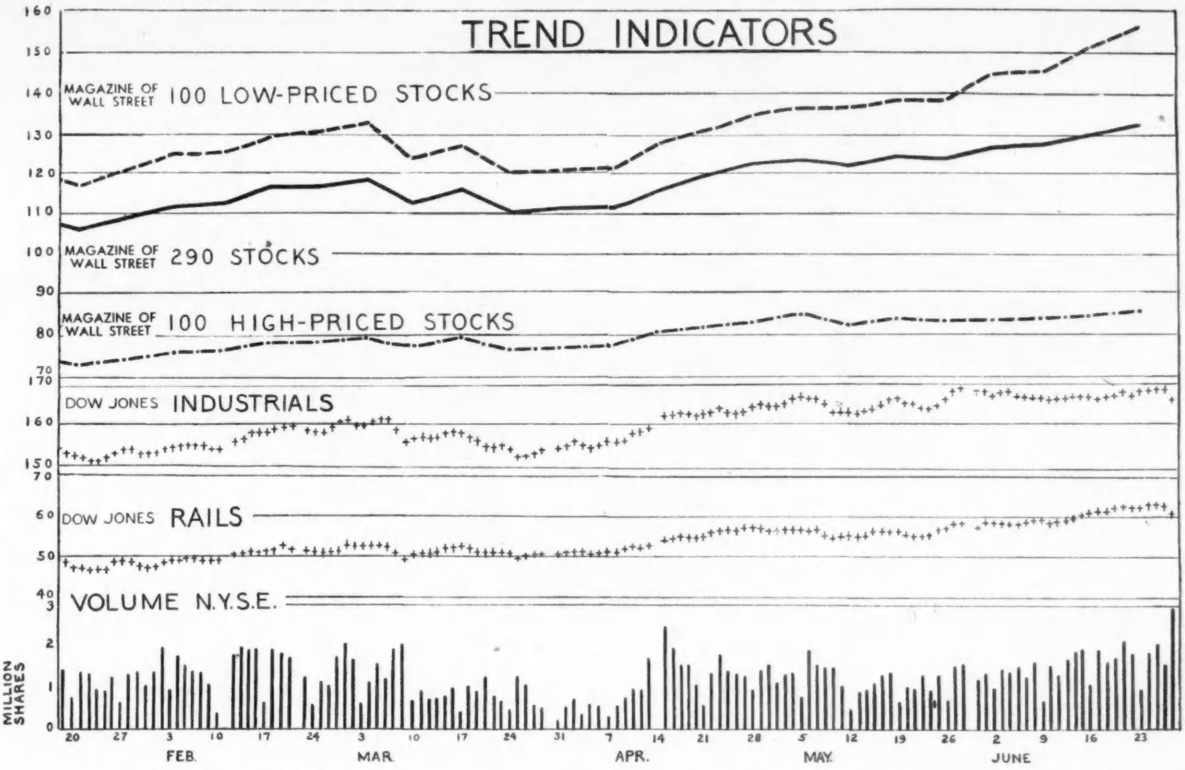
On the technical side, it makes a considerable difference whether one looks at this market from the perspective of the Dow-Jones averages—and particularly the thirty industrials—or from the perspective of broader, and therefore more representative, measures such as The Magazine of Wall Street indexes. The Dow industrial average made its high to date on May 29. Its inability to advance since then, while the Dow rail average was making new highs, has for some weeks been a matter of increasing concern to many people. This is important, if only because so many traders and investors think it is, because what people think, after all, makes the market—and the Dow averages are the most widely used measuring rods.

Yet the fact is that average stock prices, broadly speaking, continued upward in June while the Dow industrials virtually stood still; and that average stock prices declined less last week than was indicated by the Dow industrial and rail averages. The Magazine of Wall Street weekly index of 290 stocks (covering some three-quarters of total transactions in common stocks), and our indexes of 100 high-price stocks and of 100 low-price stocks all made their highs to date in the week ended June 23. The reaction last week amounted to but 1.6 points in the composite index, 1.2 points for the 100 high-price stocks and 1.62 points for the 100 low-price stocks. So far, then, it is another minor correction.

However, whatever the broad average is doing, there has been a considerable change in the character of the market. In general, it has become considerably more speculative than it was even a few months ago. The lag between better-grade stocks and our index of low-price stocks has become more and more emphatic. In the excited rail advance, the most speculative issues have been leading the way. In utilities, it has been the cheapest holding-company equities, many of dubious long-run value, which have been most avidly bought.

And there is another change, possibly of considerable significance. What were called "war stocks" not so long ago are now suddenly in much greater demand. We see this most emphatically in the aircrafts, to a lesser extent in steels, rail equipments, shipbuilding, machine tools. Yesterday's most prized "peace stocks" — such as the leading automotive, building and farm equipment stocks — have, despite





some exceptions, been getting nowhere for some time.

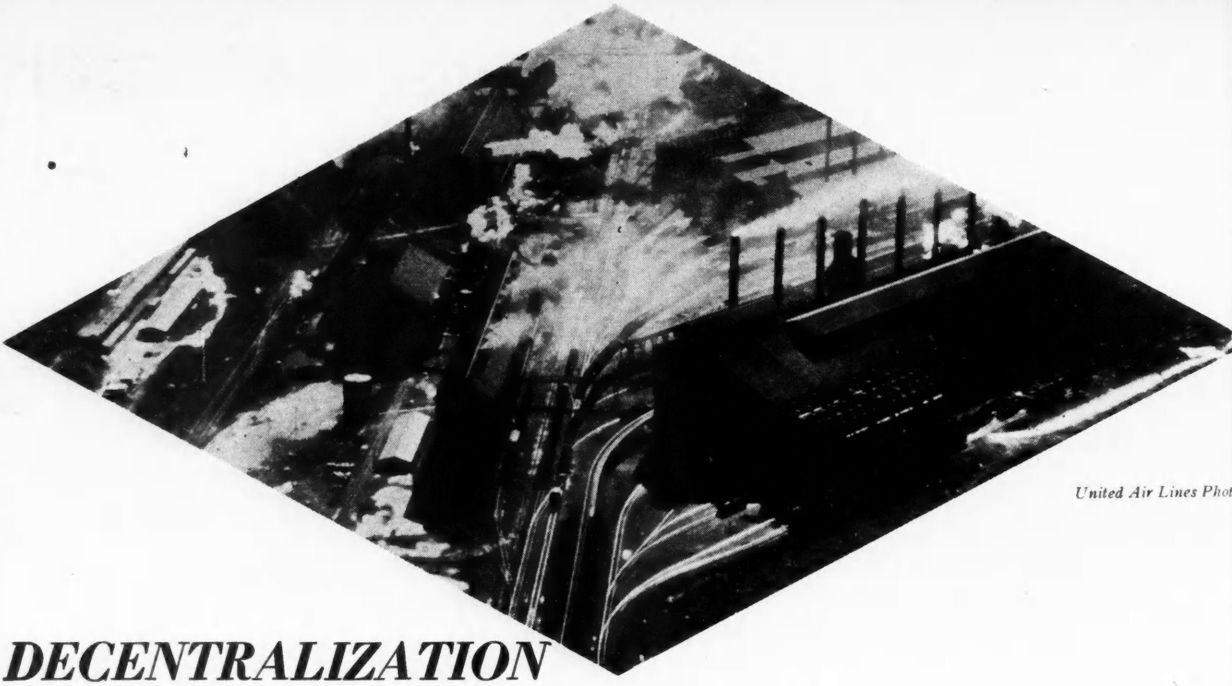
The general performance, considered in relation to the coming inevitable economic readjustment period, must raise enough presently unanswerable questions, we think, to warrant a prudent and selective conservatism in investment policy. That is true if last week's unsettlement is carried further over the near term. It is true, we believe, if the averages manage to go still higher this summer. Particularly on the buying side, sensible investors should be far more concerned with whether they are getting good value for their money than with whether an increasingly speculative phase tops out at 170 in the Dow industrials or 175 or at 180.

While the characteristics of the recent market are not necessarily indicative of a turning movement, prior to an important top, it must be said that important tops of the past have had many similar earmarks. A great many good stocks stopped going up for some time before the 1929 and 1937 tops, while in the main the more speculative issues took the play. Now many good stocks have been "dead" or quite lethargic for some weeks. Only time will tell whether this is merely a resting spell. If it is not, some important readjustment may be in the making, for there are not enough "previously neglected" groups to keep the speculative pot boiling indefinitely by the group-rotation technique.

There is another point which brings back certain memories. For a goodly time prior to the 1929 and 1937 cracks the chief fiscal authorities at Washington made no secret of their concern over growing market speculation. They were ignored until they felt at last impelled to take credit-restrictive measures. Most speculators—and brokers—were bitterly hostile to the idea that anything needed to be done.

The Federal Reserve Board, the Treasury and the Office of Economic Stabilization have for some time been concerned over present speculative tendencies. Since it is out of the question to move toward monetary-credit deflation, they can only raise margin requirements, which assuredly will be done if the recent rise is renewed (possibly to an all-cash basis), or ask Congress to raise the capital gains tax and lengthen the holding period, which Congress is apparently loath to do. So again the majority view is that "everything is all right," that the hands of the fiscal authorities are pretty well tied except on the matter of margins, and that we can have our bull market go right on, if necessary, on a full cash basis. We can not refute the last two points. But this somewhat complacent opposition to the official warnings against over-speculation is a bit astonishing. It can not be denied that recent market tendencies, if not dangerous, have had the makings of danger by over-speculative discounting of the postwar prosperity potentials while the war is still to be won. In trying to forestall serious market excess, the Administration has no motive except the national interest. To the wise, a word of responsible warning should suffice. The foolish will in due time get burned, by insisting on their God-given right to be foolish.

Nothing said here reflects any change in our view that the long-term economic-financial outlook is bullish, but we suspect that too many people have been trying to get short-term hay out of a long-term proposition. For the real welfare of the investing public, we would like to see this market quiet down. If it doesn't, we fear that a painful set-back will not be long avoided. —Monday, July 2.



United Air Lines Photo

DECENTRALIZATION TRENDS IN AMERICAN INDUSTRY

BY E. A. KRAUSS

DECENTRALIZATION of manufacturing facilities as a result of war-time experience will no doubt feature postwar programs of a good many large corporations, and perhaps some of the lesser industrial units as well. By locating plants in smaller communities, it has been found that employment can be better stabilized and living standards of workers improved, with resultant benefit to production.

The idea is not new and has been tried successfully before. But war and the necessity of frequently assembling great masses of workers at one spot with consequent problems of housing, supply, transportation and other disadvantages has tended to focus renewed attention on the benefits of decentralization. It is plain that mass production as now developed has reached a stage where its social consequences are enormous, requiring careful and immediate attention. This is especially true of highly diversified and closely integrated manufacturing enterprises, many of which have come to dominate the economic life of whole towns, cities and areas.

Hence far-sighted management realizes that it is time for careful study how to arrange the industrial processes in such a way as to preserve a maximum of their productive efficiency and yet remove as far as possible their attendant disadvantages. Somehow, it is increasingly felt, the worker must be prevented from becoming virtually a part of the machine that he operates. Both working and living conditions should be such as to minimize the danger of his being submerged as an individual, or being completely and irrevocably dependent on the fluctuating fortunes of industry with its cyclical vicissitudes. If that can be done even in modest degree, and there is no reason why not, than not only the worker but his employer and the nation at large stand to benefit.

Concentration of manufacturing processes, up to a certain limit, makes for efficiency; if carried too far, efficiency is bound to decline. That lesson probably was brought home to a good many corporations during the war period. By appropriate action, many intend to profit from this experience in the years ahead.

This is not to say that we stand on the threshold of a great wave of industrial decentralization, or that our whole industrial structure can or should be decentralized. Far from it! There are very definite limitations just as there is varying motivation to undertake decentralization, apart from the broad factors of operating efficiency and social-economic stability.

In the past, for instance, labor difficulties in highly concentrated industrial areas have frequently led to decentralization moves but nowadays, this means of "escape", if it ever was one, has lost a good deal of its former appeal since unionization has become a commonplace almost everywhere. The prospect of a more stable, or more abundant or cheaper labor supply, now as before, will probably be one the principal motives for future decentralization. Proximity of markets, taking into consideration population shifts and new regional potentials will be another one. The close relation between the latter three factors is self-evident. The growing economic stature of the South and West, for example, will undoubtedly attract new manufacturing facilities to serve these areas and exploit their enhanced market possibilities.

That sort of decentralization can be said to be a natural, almost automatic process and has been going on for years. But today we also hear with mounting emphasis of a new type of planned decentralization, that is decentralization under regional pressure rather than based on natural economic factors. Such proposals emanate largely from sectional groups —with a good deal of official approval; they are designed to take advantage of industrial potentialities inherent in Federal power development, of availability of a vast number of surplus war plants after the war, of the existence of war-displaced industrial labor and of the offer of liberal Government financing. The object, in short, is planned expansion of industry into new geographic areas and as pointed out in previous articles, this trend has assumed important weight.

All the factors mentioned probably have a part in shaping the policy of our major corporations whose activities lend themselves to decentralization. Take for instance the automobile industry where Henry Ford long has successfully pioneered in decentralized production. Other major units have followed, and looking ahead to substantial expansion of postwar automobile demand, the industry after the war will continue the slow decentralization which began as far back as the mid-Twenties.

General Motors is an excellent case in point. Decentralization of manufacturing plants with a view to advancing output and relieving congested production centers is an integral part of the corporation's expansion plans. Utilization of plants in widely separated places has been instrumental to its great war production success and the corporation intends to profit from this experience. This doesn't mean abandonment of any established peacetime plants; rather the objective is creation of operative facilities wherewith to render the most effective service. In the selection of new plant sites, primary considerations are the proximity to markets, availability of raw materials and labor—the latter including quantity, skill and general attitude—, supply of management experience and such elements as taxes, housing and kindred community factors.

Advantages of Decentralization

General Motors, in the words of its President Wilson, feels that it is not in the best interest of all concerned to get too many people working in one lot. With a diversity in employment units, the payrolls are spread over the country and many economic benefits result. Thus the corporation favors a physical diversity in the manufacturing program, as it tends to smoother operation with a larger number of units. This has been proved by wartime experience, whenever possible, policy was to prevent a mushroom growth in already congested areas which would have caused severe community hardship once the need for large war production ceased.

Quite naturally, accessibility to raw materials will have an important influence on the selection of manufacturing plants. As fabricated steel is the principal component of motor vehicles, any new plants necesarily must be in a zone fairly adjacent to steel centers, a factor that therefore imposes definite limitations on decentralization of manufacturing facilities. Not so in the case of assembly plants; even before the war General Motors—and other large motor manufacturers—had assembly units scattered throughout the country and there will be new additions after the war.

The most significant decentralization moves are those for the Buick, Pontiac and Oldsmobile divisions. Before the war, these cars were made at respective headquarters in Flint, Pontiac and Lansing, Michigan, and also assembled jointly at Southgate, Cal. and Linden, N. J. The new plans call for three more joint assembly plants, one at Kansas City, another at Wilmington, Del. and a third probably at Atlanta, Ga. Also on the program is a new Chevrolet plant at Buffalo, N. Y. and expanded facilities at Atlanta. Two big new Fisher Body plants, one at Columbus, Ohio and another at Hamilton, Ohio, will make stampings and hardware. Location of the latter—nearer to steel centers—highlights the relative limitation of decentralization moves imposed by steel needs as against the greater latitude afforded for assembly plants.

Among other motor builders, Ford plans two new units, one at Atlanta and another at St. Louis; the company moreover intends to expand assembly operations both on the East and West coasts. Chrysler alone among the major companies apparently will stick mainly to the Detroit area.

In its essence, automotive expansion and decentralization plans reflect wartime population shifts which in turn promise new marketing centers. General Motors and Ford plans for new plants in Atlanta particularly highlight the growing importance of the South as a market while the new Kansas City

Ford Motor Company Photo

A Rural Plant of the Ford Motor Company in Phoenix

plants are expected to serve Southern as well as Western areas.

Elsewhere, decentralization moves are most pronounced in the electrical industry, with General Electric and Westinghouse leading the way. Smaller companies, too, are thinking and acting along such lines as exemplified by wartime action and postwar intent of Sylvania Electric Products which has been working out a plan and policy of decentralization through feeder plants, a policy established before the war when facilities in main plant towns neared capacity. To avoid bottlenecks in production traceable to labor shortages and transportation difficulties, Sylvania has put thousands of persons to work in a score of smaller communities situated throughout the Eastern states. These smaller production units have fitted into the company's war production schedule, feeding the larger plants with parts and sub-assemblies. Much of this wartime experience will serve as a blueprint for tomorrow, with this and perhaps a good many other companies.

Trends in the Electrical Industry

The two electrical giants, General Electric and Westinghouse Electric have long followed a definite policy of decentralizating manufacturing operations, and have definite ideas as to continuation of this policy. General Electric especially is greatly interested in further postwar decentralization and is reported to consider expenditures of some $125 million to consumate existing plans. Such outlays would probably cover new plant construction only; including collateral expenditures, total outlays may well run considerably higher. For some time, General Electric has felt the need to get into smaller plants and smaller towns to avoid over-concentration of manufacturing activities at its Schenectady, N. Y. headquarters which is not only affecting operating efficiency but also—in wartime particularly—was bound to create serious community problems.

Postwar expansion plans of manufacturing space therefore tend away from crowded headquarters into outside territories. Especially in the corporation's lamp and plastics divisions, this involves no great problem since the manufacturing process is mainly automatic, therefore doesn't call for highly skilled labor. But in the appliance divisions, too, the trend is toward decentralization wherever possible.

Principal motivation is not only to halt overcrowding at established manufacturing centers, but the desire for better labor relations and more stable labor supply, for cost reduction through greater operating efficiency, and lower sales and distribution costs. Proximity to markets is another factor. Mindful of the growing economic importance of the West, the corporation's decentralization program contemplates new plant facilities at the Pacific Coast and several building sites have already been acquired. In the case of General Electric, too, decentralization is a carefully planned evolutionary program based on past experience and prospective needs and opportunities rather than a hastily conceived idea to be consummated in short order.

Elsewhere the decentralization tide runs high in the food industry, the furniture industry, in certain branches of the clothing, metal products and pharmaceutical industries, and in small electric goods involving a simple assembly process that doesn't call for highly skilled labor. In these fields, and certain others suitable for decentralized operations, the postwar should witness considerable branching out, away from established manufacturing centers into smaller towns scattered all over the country. The food industry particularly is a leading candidate with new processing plants likely to be established in hundreds of small towns, close to the raw food supply. It would be a logical development; the food industry is ripe for decentralization.

The Merchandising Field

In the merchandising field, also, decentralization trends are pronounced, largely in response to population shifts such as from cities into suburban and rural areas, and to the broader shift of economic weight towards the South and West. The former is not new and even before the war has led, for instance, to decentralization of department store operations into suburban areas and the scattering of other merchandising units among rural centers. That trend is likely to intensify in the years ahead.

As to wartime population shifts and their permanency, however, there is a distinct tendency towards caution among major industries in evaluating their implications in respect to opportunities or needs provided thereby for expansion or decentralization. True, significant changes in the geographic distribution of the American people and of their economic activity have resulted from conversion to a war economy. Unprecedented changes in industrial location, migrations involving several million workers, and broad shifts in the potentialities of various market areas have occurred. The center of gravity of American economic life has shifted markedly Westward and Southward during the war, but wartime geographic shifts, on the whole but with some exceptions, represent merely the acceleration of longterm trends and such longterm trends are taken into account by business and industry as a matter of course.

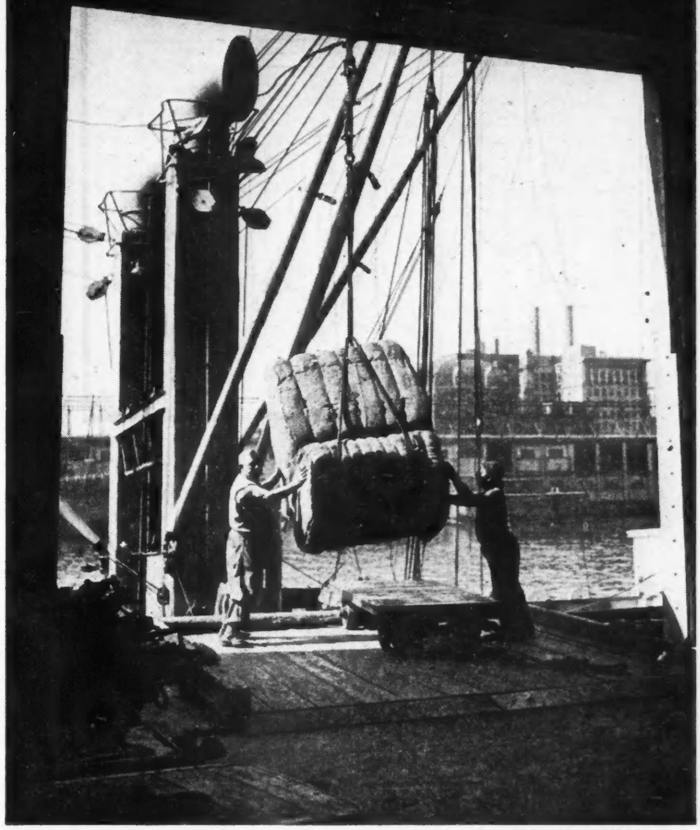
Population Shifts

The trends will continue but there is much doubt as to the permanency of the population shifts that have occurred in the wake of the war effort. Studies have shown that the net effect of these shifts may be far less than anticipated. Many workers who have been migrating to war production centers have been drifting back, and others undoubtedly will. It may take some time to appraise the overall net diffusion of population that will remain after the war, and pending such appraisal, major industries will be slow in resorting to decentralization moves based on population shifts alone, and new market potentials arising therefrom. Where other factors enter, such as labor or cost considerations, decentralization will move ahead, provided it is found practical and there are adequate incentives. With basic industries, the value of production at or near the source of raw material is an overriding consideration, however, and will limit importantly whatever decentralization of operations might otherwise appear desirable.

Should you move your (*Please turn to page* 398)

U. S. ROLE IN *Postwar Shipping*

BY JOHN C. CRESSWILL



Gendreau Photo

Unloading Wool from Alexandria, Egypt

ONE of the major and perhaps most difficult problems that will face the United States at the end of the war will be that of using or disposing of the enormous fleet of merchant ships accumulated as a result of the emergency shipbuilding program. The problem is by no means wholly an economic one, and to us it is perhaps not even primarily an economic one.

This because the Merchant Marine, one of the oldest American industries and one of the most complex in its wide ramifications, is not just a business in the usual sense of that word. It is also an instrument of national policy, vital in the preservation and development of foreign commerce, and a factor in national defense where it occupies a position second only to the armed forces.

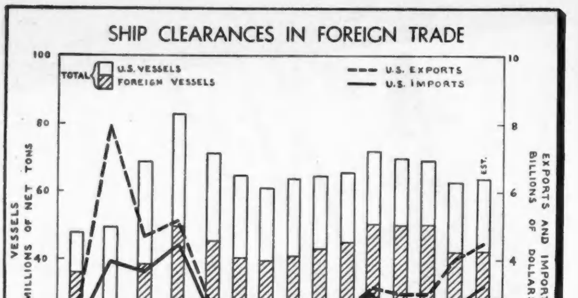
The problem is economic to the extent that it involves the protection of our commerce in peace as well as war, and the fate of a national investment of some $16 billion in emergency shipping. But national defense, as recently stated by the Maritime Commission, is an important, if not primary justification for the maintenance of American vessels in foreign trade.

Twice in our national history, this point has been brought home to us forcefully and painfully; first after the Civil War and again after the First World War when we have allowed our merchant marine to languish, and on both occasions our lack of foresight has brought us face to face with an extreme emergency. After the current conflict, the military aspect is likely to assume even greater importance as a result of the unprecedented naval strength built up in recent years. If this strength is to be maintained, a merchant marine of corresponding proportions is indispensable. Fortunately it is not likely that we will make the same mistake a third time but complex matters nevertheless remains to be solved.

This is because peace-time development of our merchant marine hinges on both domestic and international problems and policies. In the aggregate, these amount to the difficult task of rationalizing the structure of the **world's** merchant marine, arriving at an equitable division of tonnage and routes among nations, and guaranteeing that world economic conditions will favor constantly enlarging postwar commerce. It is a task that still remains to be tackled on an international basis; but preliminary planning clearly points to future American leadership on the seas, to the fact that the lessons of the past have now been well learned.

Today, Uncle Sam is the world's leading shipping magnate. By the time the war is over, the United States will have a merchant fleet of at least 56,000,000 weight tons. This is a fleet five times the size of our prewar merchant marine, and nearly three times as large as the British merchant fleet before the war. It will constitute roughly two-thirds of all the shipping in the world. Plans are now rapidly taking shape for the postwar use, and dispersal, of this huge accumulation of vessels.

A program presented to Congress some time ago by Vice-Admiral Emory C. Land, Chairman of the U. S. Maritime Commission, delineates a plan for their prospective use and disposition. It calls for a postwar American merchant marine between 15,000,000 and preferably 20,000,000 tons. Such a pro-



gram would employ all, or nearly all, of the fast, efficient new ships and keep them in American hands. The remainder would be variously disposed of. Roughly, of the total available tonnage of 56,-000,000 tons, 20,000,000 tons would be kept in use, another 20,000,000 tons would be held in emergency reserve, some 12,000,000 tons might be sold to our allies and some 4,000,000 tons, mostly over-age or in bad repair, would be scrapped.

It is questionable, of course, whether we could use as many as 20,000,000 tons or even the lower figure suggested 15,000,000 tons after the war though the Maritime Commission optimistically foresees sufficient cargoes in a broadly expanded postwar world trade for employment of some 16 million tons. Not all of it, naturally, would be used in overseas trade. However, some current analyses of postwar trade routes indicate a somewhat lower probably tonnage than suggested. Accordingly to these, it is expected that no more than 5,000,000 tons would be needed for regular overseas service, plus an additional million tons for tramp service. The aggregate of 6,000,000 tons would be about double the prewar figure but falls short of the 7,500,000 tons proposed for overseas trade by Chairman Land whose latest estimate of total requirements for overseas, coastal and inland service combined is some 16,000,000 tons.

On the assumption of peace-time American requirements of 15,000,000 tons, there would remain an indicated gross surplus of about 40,000,000 deadweight tons. The greater part of this, or some 26,000,000 tons, will consist of some 2,400 Liberty ships of low speed and limited usefulness for postwar service; they would have to be either sold abroad, laid up or scrapped. Then there are some 500 Victory ships, fast and efficient vessels with an aggregate tonnage of well over 5,000,000 tons. A good many of these we may want to use after the war, others may find ready takers abroad. The same applies to the nearly 700 C-type cargo ships, equalling in efficiency and economy of operation almost anything afloat. Total tonnage of these is above 6,000,000 tons; just as the Victory ships, they are believed fully capable of holding their own in postwar competition.

Even without the Liberty ships, our available postwar merchant fleet will be very large, as the above tonnage figures indicate, and its use is a matter of vital importance to ourselves and others. From our own viewpoint, national defense is paramount, hence it is rather obvious that adequate provision must be made to safeguard it. There is general agreement on this point but postwar maintenance of a large merchant marine, say of between 15,000,000 and 20,000,000 tons will be a formidable task. Manifestly there is no basis at this time for any precise estimate of the potential employment of American shipping in overseas foreign service. The future volume, direction and composition of trade—the latter a most important point,—together with factors influencing its carriage, are all more or less obscure.

Some indication of shipping possibilities may be had from rough calculations based on past performance and assumed contingencies. Our prewar foreign service fleet of 3,300,000 deadweight tons carried about 30% of our seaborne international trade, from which it is apparent that approximately 6,000,000 tons might have been employed if 50% of our trade had been carried in American bottoms. Under similar conditions but with double the trade volume, it would have been possible to employ some 11,-000,000 tons of American shipping.

This sort of calculation of course is no more than a gross simplification of the problem but it points up, however roughly, the potentials and the tremendous volume of trade required to maintain in profitable operation a merchant fleet likely to be adequate for national defense. Even if American shippers, to a far greater degree than ever before, use American vessels to carry their goods going abroad or coming from foreign lands, even if American shipping can take over a big proportion of the commerce once carried by German and Japanese vessels, continued operating subsidies, primarily to equalize wage payments to American and foreign sailors, would be necessary. These subsidies, it is pointed out, would hardly be unbearably large. In this connection, Mr. Land has been pointing out that the biggest annual subsidy payment to the merchant marine between 1936 and the war's start was $13 million, a relatively small amount if viewed solely from the viewpoint of national defense. However, payments required after the war to maintain a vastly greater fleet would be correspondingly heavier.

The extent to which we will be able to utilize a greatly increased merchant marine in the years to come will depend primarily on two factors: (1) The volume of our foreign trade, and (2) the distribution of the trade between foreign-flag and American-flag carriers. A third factor is the possibility of increased participaton in the carriage of trade between foreign countries, hitherto almost exclusively handled by vessels of foreign registry. In every respect, there appears to be considerable room for increasing our share though the desirable amount of increase, from the international standpoint, is limited.

The more moderate faction among the postwar planners is clearly taking this into account. While assuming that the United States will occupy a leading position as a maritime power, they contend that practical considerations may preclude a too drastic extension of that leadership. An unduly ambitious

attempt at shipping expansion, they believe, would involve serious dislocation of the economy of other maritime nations, possibly leading to imposition of stringent import controls with resultant damage to international trade as a whole. To capture too large a share of the international shipping business, according to this view, might also inflict direct injury to our export trade by depriving other maritime nations of one of their principal means of paying for our goods. Such countries as Britain, the Netherlands and Norway have lost many of their revenue-producing resources due to the war, this in the future will be even more dependent on the earnings of their merchant fleets. Possibly this point is being overemphasized but it cannot be dismissed as a vital factor. Genuine concern of European shipping nations over the outlook attest to its validity; so do statistics of their prewar shipping revenues in relation to their international balance of payments.

The foregoing highlights the major questions obscuring the postwar shipping outlook. There are others of course, hardly less important, such as our rate policy, clarification of which many believe must precede any decisive discussion of postwar shipping and the distribution of American tonnage to other nations. Last but not least, there is the question of postwar Government control over American shipping though in the absence of any indication of official intent to continue rigid control, expectation is in the direction of restoration of private enterprise in shipping under which rates are subject to normal competitive influences.

Virtually all the problems cited still await discussion and clarification on an international plane. While a complete solution probably cannot be achieved at once, there is ample evidence of eagerness all around to arrive at a mutually satisfactory settlement, giving fair recognition to the viewpoint and problems of all parties concerned in the international shipping picture. Final solutions, however, may well have to be sought step by step in the light of developments that cannot be accurately foreseen for some time. While the task is not an impossible one, it involves problems of great delicacy and import. Perhaps the best promise of success lies in the fact that failure to arrive at constructive solutions would unleash such fierce international competition as to be far more harmful that any settlement arrived by negotiation. Cutthroat competition throughout the world could then be surely expected.

The prospect of a 56,000,000 tons U. S. merchant fleet after the war—and before its redistribution—would appear to portend a postwar shipping glut of considerable proportions, although it is possible to demonstrate that under favorable economic conditions there will be a shortage of shipping at least immediately after the conflict. But curiously, and regardless of whether there is a glut or not, the war's end will witness a considerable demand for new ship construction, for we are extremely short of passenger vessels. If the American flag is to hold first place on the seas, this deficiency must be quickly corrected; hence plans to build some five million tons of the most modern passenger and cargo ships at an overall cost of about $1.5 billions. The new ships are to serve as the real backbone of our postwar merchant marine; Admiral Land proposes that six to ten of these ships be built as soon as war conditions permit and assigned as quickly as posible to important routes to keep us ahead of the parade.

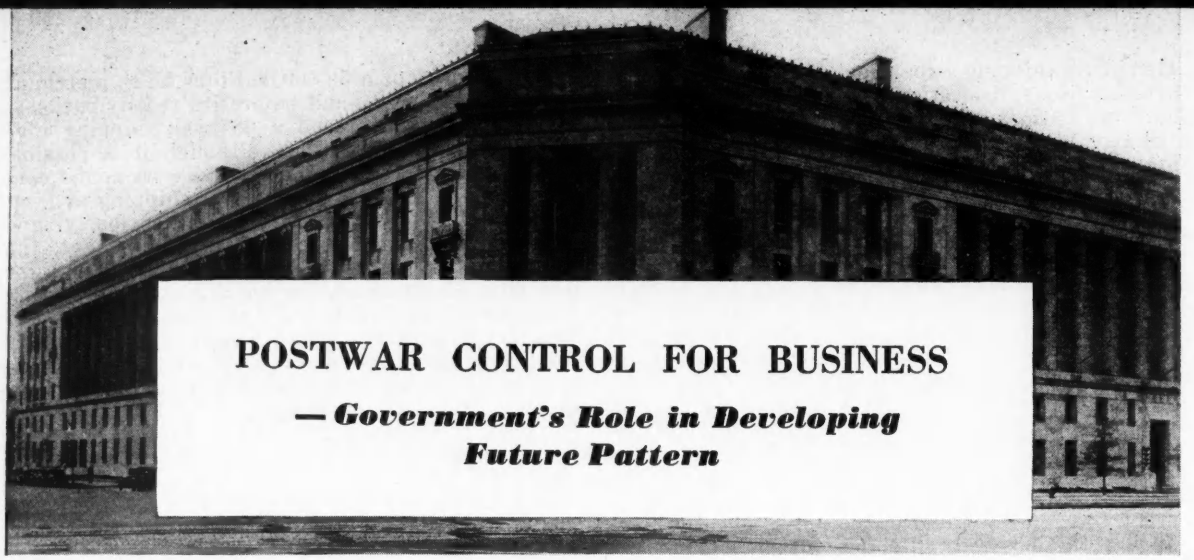
A building program of that size, on top of the prolific wartime construction, is justified on the grounds of prospective business prosperity and national needs, the expectation of a vigorous revival of foreign travel and foreign trade. The program, subject to congressional approval since it would be Government-financed, tentatively includes some eight 30,000 tonners, luxury liners for ocean passenger travel. Four would be assigned to the Atlantic and four to the Pacific. There is no intention of experimenting with uneconomical superliners of the Queen Elizabeth or Normandy type. It would also call for a considerable number of medium-sized cabin liners, possibly as many as thirty, mainly of the prewar Manhattan and Washington class to accommodate ocean-going tourist travel, and a similar number of small cabin liners for cheap, comfortable travel to out-of-the-way ports where the larger ships do not usually call. The program further would include about a hundred coastwise passenger-cargo ships, to be used in the West Indian trade and for Atlantic and Pacific coastal travel. Such a building program would go far towards streamlining our gigantic war-built fleet into an instrument adapted to modern needs; however it remains to be seen whether Congress is willing to subscribe to the proposal.

Ships thus built would be sold the U. S. operators at a discount that would bring the price down to the levels of foreign construction costs. While such a differential, already (*Please turn to page* 400)

Statistical Data of Leading American Shipping Companies

	Gross Revenues 1939	Gross Revenues 1944	Net Income 1939	Net Income 1944	Total Assets 1939	Total Assets 1944	Net Work Cap. 1939	Net Work Cap. 1944	Net per share 1936-9 Avge.	Net per share 1944	Dividends 1936-9 Avge.	Dividends 1944	Recent Price
	in millions of dollars												
Amer. Export Lines	9.8(a)	4.8(a)	1.43	2.07	13.4	42.7	1.7	5.8	$2.98(b)	$4.15	$1.05	$2.00	40½
Amer. Hawaiian SS Lines	18.8(a)	4.5 a)	.99	1.28	13.0	24.5	3.6	9.7	1.08	3.06	1.22	3.00	45
Atlantic Gulf & W.I. SS Lines	25.0	8.3	def.39	1.46	43.3	32.6	2.3	5.0	def 6.18	7.38	Nil	3.00	38
U. S. Lines	20.5	10.2	2.42	1.62	17.4	35.1	3.4	2.9	N.A.	1.15	Nil	Nil	12⅝

(a)—Operating Revenues (b)—1939 only



POSTWAR CONTROL FOR BUSINESS

— Government's Role in Developing Future Pattern

Department of Justice *Gendreau Photo*

BY JOHN D. C. WELDON

As we all know, the war has pushed Government deeply into business. By now we also have come to realize that the process of conducting and ultimately liquidating that business is bound to have far-reaching effects on industry's postwar operations, on the general economic environment and above all, the future development pattern of business and industry. It is not too much to say that in the process we shall undergo a reshaping of our economic map to an extent hitherto perhaps little realized.

It would oversimply matters merely to state that large-scale entry of Government into business during the war period **per se** makes the reshaping of our economic map a foregone conclusion, or broadening Government control of business an inescapable necessity. By no means. The Government's role in the postwar economy is determined not so much by its extraordinary war-time functions which technically at least, it would be relatively simple to cease by complete withdrawal from the domain of business and by handing the reins back to private enterprise. The latter no doubt would greatly applaud such a decision. But such, alas, is hardly feasible.

Perhaps the chief reason for that is the fact that we shall emerge from the war with an enormously swollen national debt, and that Federal budgets after the war will run from two to four times the prewar average. It is a most compelling reason, for it means that whether it likes it or not, the Government as the future number one spender must carry the responsibility for keeping our economy both stable and prosperous. This idea is fundamental to all official postwar planning, hence the full employment program, the broadened social security program, the numerous moves to aid small business and all the other measures designed to stabilize employment and assure postwar prosperity. They all are cues to the basic Administration policy—unchanged under President Truman as to intent though ways and means by reaching the goal may differ somewhat from what his predecessor had in mind. Nor is it a question of "turning to the left," as some see it. It is merely recognition of the hard fact that there can be no "back to normal" in the sense that things will never be as they were in 1939, or any other prewar period. The war and its economic consequences have seen to that.

According to the best estimates, our postwar budgets will run no less than about $25 billion annually compared, for instance, with a 1937 budget of some $8 billion. They may run as high as $30 billion, depending on various imponderables. It is easy to see that budgets of that size are full of economic meaning, all of which figures prominently in the plans of Administration strategists. For one, such budgets, to be bearable, inevitably commit us to a high-income, full employment policy or else there would be scant hope of balancing them for any length of time, if at all. Secondly, with the Government raising and spending some $25 billion annually, it must necessarily—for economic balance—take into consideration the effect of such raising and spending on national income and employment.

It is not difficult to see that any Government that controls the movement of $25 billion annually into the national income stream will automatically obtain a considerable measure of control exercised through fiscal policy alone will be a potent underlying factor and, it seems ,an unavoidable prospect. This no matter how sincerely the Government may attempt to make as acceptable as possible whatever Federal controls over business must be carried into the postwar.

Quite apart from that, full employment is not to remain a slogan but is to become a national policy, if we correctly appraise the latest moves in this direction. Official policy, in short, will dwell on the necessity of sustaining greatest possible purchasing power to maintain a high-level economy which in turn is viewed as a "must" to balance Federal budgets after the war. The relationship between the two is hardly open to question; to correlate them properly, the Government feels, requires painstaking forward planning and exercise of certain basic controls.

Controlling postwar business, supervising and guiding its development into directions in harmony with the intentions of official economic policy can take many forms, not all of them direct or obvious. Among others, the Justice Department is preparing

to play an active role in supervising postwar activities of American business. The anti-trust division wants to be certain that the vastly expanded industrial capacity and the new technology developed in many fields are as fully available in peace as they were during the war. Back of this endeavor is not only the determination to break the alleged stranglehold of monopoly through an aggressive anti-trust policy; the whole ties right in with the many plans for aiding and expanding small business — in the interest of maximum employment — and with the effort towards greater geographic decentralization of our economy by developing the South and West.

Numerous cues point in the latter direction. The connection may not have been immediately apparent but the westward and southward shift of economic power advanced a big step with the recent Interstate Commerce Commission's decision ordering rail rate revision. Implications of this move were discussed in detail in our last issue. Much in the same category are plans to develop Western and Southern resources by new TVA-type projects such as the Mississippi Valley Authority and "little TVA's," by employment of Federal funds to subsidize business in undeveloped regions, by a Government war plant disposal program designed to keep Southern and Western plants in operation wherever possible, even at the expense of scrapping plants in the East.

A straw in the wind are President Truman's latest Cabinet appointments, indicative of a distinct shift of political and economic power among the various geographical areas of the country. The fact that all three new appointees hail from the West is hardly an accident. In this connection, it might be well to remember that President Truman, himself a mid-westerner, formerly belonged in the Senate to a liberal bloc led by Senators Murray and Kilgore and strongly favoring industrialization of the South and West. Their goal was to curb what they called the dominant industrial position of the East; their platform is roughly described in the preceding paragraph and elsewhere.

Of that platform, an aggressive anti-trust policy is one of the major planks, if not the most important, though in intent, it naturally transcends mere regional considerations. In fact the anti-trust ax is being resharpened for a revival of a militant trust-busting campaign after the war. Former Attorney-General Biddle—now succeeded by Tom C. Clark—in his last annual report was quite outspoken in this respect. "The war has resulted in an inevitable economic concentration of business" he says, "and in almost every field the large companies will emerge much more powerful than before the war; in some fields small companies have been completely eliminated." He goes on to announce a postwar anti-trust policy designed to reduce the concentration of business made necessary by the war emergency, to strengthen competitive enterprise and put the new wartime industrial capacity to work in a civilian economy.

There is no reason to assume that the same policy will not be pursued by the new Attorney-General; it is known to have the wholehearted support of the President. Methods however may differ somewhat by placing greater emphasis on civil anti-trust actions instead of the former practice involving criminal prosecutions which frequently resulted in "no contest" pleas by corporations and individuals. But like his predecessor, Mr. Clark is quite determined; he has described his policy as "no witch-hunting, but practical, swift, hard-hitting anti-trust law enforcement."

In laying their postwar plans, business men therefore will have to take account of the postwar planning of the Anti-Trust Division of the Justice Department. International cartels are to be brought to light, prosecuted and blasted. Since 1937, some 26 major anti-trust cartel cases have been instituted by the Department, some of which are still to be decided. These do not include numerous domestic anti-trust cases (see table), disposition of which was postponed mainly so as not to interfere with the war effort.

By and large, the war years have been lean years for the trust busters. *(Please turn to page 398)*

Antitrust Cartel Cases Instituted by the Department of Justice Since 1937

Product:	Companies Involved:
AIRCRAFT ACCESSORIES:	Bendix Aviation
ALKALI:	U. S. Alkali Export Association
ALUMINUM:	Aluminum Co. of America
CHEMICALS:	Imperial Chemical Industries, Ltd.
CHEMICALS AND PETROLEUM:	Standard Oil of N. J.
DYESTUFFS:	Allied Chemical & Dye General Dyestuff Corp.
FERTILIZER:	American Potash & Chemical Chilean Nitrate Sales Corporation Allied Chemical & Dye Imperial Chemical Industries, Ltd. Mutual Chemical Co. of America Synthetic Nitrogen Products Corp.
FLUORESCENT LAMPS:	General Electric
FUEL INJECTION EQUIPMENT:	American Bosch Corporation
GLASS BULBS:	Corning Glass Works
GYROSCOPIC INSTRUMENTS:	Sperry Corporation
HORMONES:	Ciba Pharmaceutical Products Roche-Organon, Inc. Schering Corporation Swiss Bank Cororation
INCANDESCENT LAMPS:	General Electric
MAGNESITE BRICK:	Harbison-Walker Refractories Magnesit Co., Ltd.
MAGNESIUM:	Aluminum Cororation of America I. G. Farben American Magnesium Corporation Dow Chemical
MATCHES:	Diamond Match
MILITARY OPTICAL INSTR.:	Bausch & Lomb Optical
MOLYBDENUM:	Climax Molybdenum
NEWS REPORTING:	Associated Press
NEWSPRINT PAPER:	Crown Zellerbach
PHARMACEUTICAL PRODUCTS:	Alba Pharmaceutical Co. Bayer Company Merck & Company
PHOTOGRAPHIC MATERIALS:	General Aniline & Film Dietrich A. Schmitz
PLASTICS:	duPont de Nemours
QUEBRACHO:	Forestal Land, Timber & Rys., Ltd. Tannin Corporation
TITANIUM COMPOUNDS:	National Lead Company
TUNGSTEN CARBIDE:	General Electric Company

Some of the Antitrust Suits Postponed for the Duration

Allied Chemical & Dye	(dyestuffs)
American Air Filter Co.	(air filters)
American Brass Co.	(flexible metal hose and tubing)
American Optical Co. (Bausch & Lomb Optical Co.)	(optical goods)
American Surgical Trade Association	(surgical supplies)
Auditorium Conditioning Corporation	(air-conditioning units)
Bausch & Lomb Optical Company	(optical goods)
Bemis Bros. Bag	(open mesh bags)
Central Supply Association	(plumbing supplies)
duPont de Nemours	(chromic acid)
duPont de Nemours	(muriatic acid)
Elgin National Watch Company	(watches)
General Chemical Company	(laboratory chemicals)
General Electric Co., Fried. Krupp	(tungsten carbide)
General Electric Company	(fluorescent lamps)
General Electric Company	(incandescent lamps)
Hamilton Watch Company	(watches)
Monsanto Chemical Company	(sulphuric acid)
Mutual Chemical Company of America	(bichromates acid)
Optical Wholesalers National Association	(optical goods)
Smoot Sand & Gravel	(sand and gravel)
Southern California Gas Co.	(gas ranges)
Victor Chemical Works	(oxalic acid)
Waltham Watch Company	(watches)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

REDUCTION in the food supplies for all civilians living in the territory of the United Nations is ahead. The War Food Administration has sent its chief statistician abroad on a mission that is being kept very hush-hush, where he already has had sessions with government supply chiefs including those of liberated countries. Upon his return he will report on what the European nations can do for themselves, how much they will need to be helped. Foregone conclusion is worldwide thinning of menus, question is to what extent.

TRANSPORTATION overload has forced the War Department to cut its original rail movement schedule from 500,000 to 400,000 men each month. Civilian rationing of travel won't be ordered but voluntary reduction of 25 per cent is immediate necessity. Railroad manpower strain is severe west of Chicago. Water transportation is becoming a problem and sailings to South America, Africa and Europe will be curtailed. Civilian freight movement is slowing to standstill.

NEW LIFE for the long dormant anti-chain store legislation has been breathed into the movement by the disclosure that Elliot Roosevelt settled for $4,000, a $200,000 loan made to him by the president of Atlantic & Pacific Company. The current A&P trial at Danville, Ill., became a first-page story with the Roosevelt development. Elliot's lobbying proclivities have long been known on Capitol Hill, and President John Hartford's financial interest in the young man's promotions has given rise to speculation, and demand for official investigation.

SURPLUS PROPERTY handling is in for thorough congressional overhauling. SPB is in real difficulty. A recent creation that hardly has begun to function it already has lost two chairman—Guy Gillette and Will S. Clayton—both of whom quit in disgust and a blast at the system and its operations. Complicated system of priorities which has no adequate written guides, may be erased. Other changes, including personnel, are in prospect.

TOO EARLY for appraisal, but important to consider, are the several actions in recent days which show a break from the "Truman Honeymoon" with Congress. Instances are numerous, a few will suffice: Congress has ignored the White House plea to continue the FEPC; it has rejected the Administration's draft for an OPA structure, written its own; it has approved, but not without challenge, Claude Wickard for REA administrator. There are about 100 war agencies headed for dissolution, many with congressional friends.

Washington Sees:

There is neither intention nor possibility that the new Federal Industrial Relations Act might be passed in its present form but organized labor is sowing the seeds of grief by unyielding opposition without offering suggestions for improvement.

The sponsoring senators—Hatch, Burton and Ball—are not distinguished for creative talent in the field of labor legislation but they have taken counsel with a committee of men who have helped form public opinion in the past and their product, in some form, is likely to become law. By joining with the U. S. Chamber of Commerce in writing a labor-management pact, union chiefs have conceded the need for a program of peaceful, orderly labor relations during the reconversion period; but the first attempt to translate that proclamation into law finds the unions united against what was admitted to be only a beginning.

Congress has outlawed the injunctive process to fight labor abuses and any law repealing the Norris-LaGuardia Act hasn't a chance of enactment. Yet labor centers its opposition on that point. Codifying federal labor policy in an agency other than the Labor Department would be opposed by President Truman. That should be sufficient assurance. Still labor fights on, reminiscent of the stubborn battle industry waged for many years against employee impropements through law. The positions hape changed; the results will be the same.

AS WE GO TO PRESS

Surplus commodities won't be as competitive with post-war produced goods as most believe. Fact of the matter is that most of the materiel will be located in foreign countries, war areas, support areas and countries that have helped supply the war effort, when V-J Day arrives.

That means guesses on the amount that will be declared surplus can be no more than that; even approximations can be thrown off by combat destruction, obsolesence.

Plan is to sell as much as possible in foreign countries, devote as much as possible to peacetime uses. Tanks, trucks, bulldozers will be needed for rehabilitation of devastated areas. It ties in with revival of foreign trade.

Government will not be inclined to haggle on price. That's particularly true of consumer goods. Quick disposal will relieve current shortages, insure reasonable return, clear the way for expanded civilian production.

Germany and Japan have been dropped from all official plans for resuscitation of export business. Never really big markets, they will account for little loss; and that loss will be temporary, quickly overcome by increased sales to other nations.

The major Axis Countries won't be able to tap the international bank. Italy will. Argentina will, regardless of her political ideology. The objective is economic recovery, not political reconversion. That, of course, doesn't hold for war-making, aggressor countries.

Government, which formerly looked askance at wage incentive plans and preferred the policy of pay regulated by time on the job, has shifted its position. To popularize what in reality is piece-work compensation, WPB has published a handbook for general distribution, citing all-around benefits of the incentive system.

Typical paragraph: "Reports on the operation of new wage incentive plans indicate that, on the average, an increase in production per man-hour of about 40 per cent occurred in the first 90 days of operation. Wages increased an average of 15 to 20 per cent and costs decreased about 10 to 15 per cent."

Logical approach taken by Treasury to solution of tax deductions covering costs of reconverting plants is favorable omen. Its early announcement will be spur to thorough-going changeover.

"Business expense' in this connection, and deductible, will be costs of ripping out and replacing, transportation to and from warehouses as well as storage on peacetime equipment; in general all outlay incurred in returning plant to peacetime status.

Wage disputes incident to business reconversion are blanketing National War Labor Board under an avalanche of cases. Number is approaching the 20,000 mark and present staff of enforcement agents isn't large enough to take care of newly arriving complaints, let alone dent the backlog.

Congress is expected to provide 100 additional agents for WLB. That won't toughen the enforcement policies, will hardly be sufficient to bring the dockets up to date.

WLB and OPA will be brought into closer working relationship. Payment of 1945 wages to produce consumer goods selling at 1942 prices poses a problem of simple arithmetic which just doesn't add up.

Last-ditch fight would be made against wage cuts both by labor and its friends in congress. Accordingly it will be avoided, if possible. Suggested solution which is winning favor is to permit producers to add to 1942 prices the increased costs of production occurring between 1942-1945.

That throws cost-of-living statistics off but it gets around the troublesome subject of wage deductions, holds out the promise that actual take-home pay may be greater when technological and other improvements cut production costs, warrant re-examination of the formula.

Expanded social security program which would add 15 million persons to the system isn't in the cards for legislation this year. It will be shelved to make way for action on UNCIO, then congress will adjourn.

Fall session of the lawmakers will be concerned with larger world events and will give little attention to social and reform bills unless problems of re-conversion greatly accentuate the need for wider coverage on jobless insurance. Wagner health bill falls into the same category.

General Eisenhower despite his protest of "no interest," is a dark horse entry for Secretary of State in Washington speculation. The Texas-born, Kansas-reared soldier has shown surprising aptitude for diplomacy in his dealings with the British and the Russians. James F. Byrnes probably leads the field as of today.

Stettinius is on the way out. He may become Ambassador to Great Britain. He's a republican; Eisenhower and Byrnes are democrats. While succession to the Presidency won't be a factor if Congress makes the Speaker of the House No. 1 "stand-in" for the Chief executive, there's a national ticket in view and a successful Secretary of State is always good vice presidential timber.

Question mark in Washington minds is how, and to what extent, President Truman will use his broadened power to slash customs duties on a long list of products, up to 50 per cent. Backers of the new reciprocal trade bill contended the authority was the principal objective; that it will be used sparingly.

Congress members recalling the political capital that the late Senator Thomas Walsh raised with his Teapot Dome oil investigation are turning over every rock in sight hoping to find a crawling scandal.

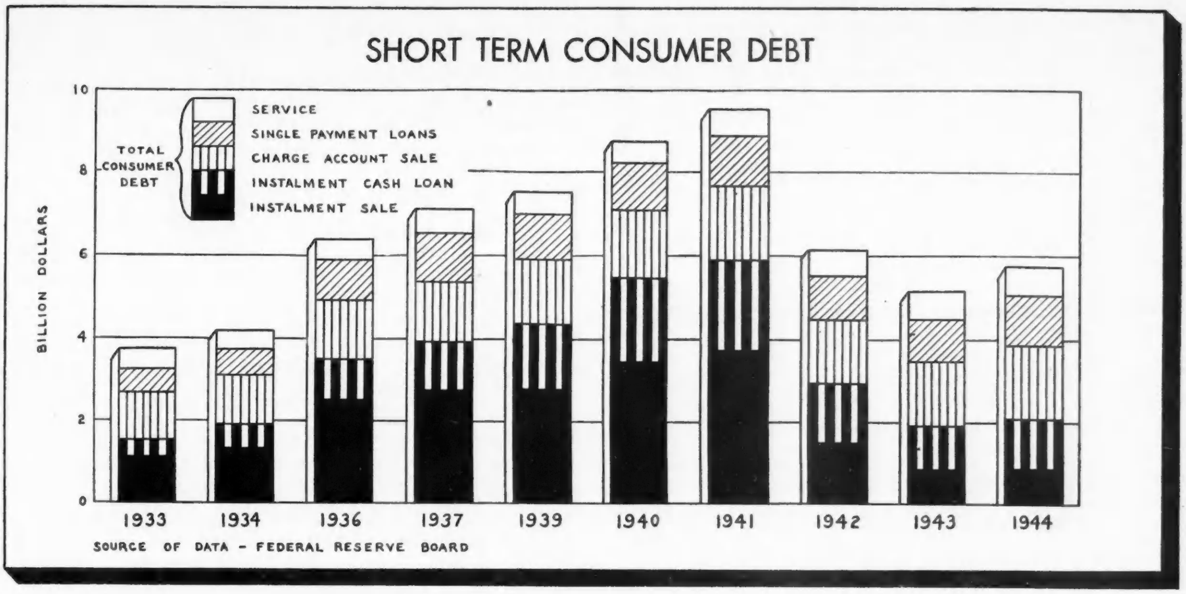
Industry can be thankful that the senate inquiry into war expenditures ran simultaneously with the war. Reports of malpractice were probed while the evidence was still fresh, the witnesses available. Little was uncovered. Major advantage was a preventive against hoarding facts, rumors and slanders for post-war use for political and other purposes.

Contractors were the whipping boys in the early days of the Truman (now Mead) Committee's work. Trend today is to level both barrels at government agencies. The files carry abundant proof that industry delivered the goods with a minimum of wrongdoing.

Unemployment plan submitted by President Truman will be broadened by amendment when it comes before the house. Originally projecting payment of $25 weekly for 26 weeks, to cushion expected impact of reconversion, it eventually will include allowance for transportation home for war workers.

Blueprint, possibly, for sales contracts involving surplus property was the agreement just signed by Federal Public Housing Administration covering disposition of three southern hosiery mills which FPHA inherited from the defunct Farm Security Administration.

Purchasers were required to stipulate they will continue production, hire employees in the localities of operation. Incidentally, the sales recovered for the government, $1,200,000 out of an initial investment of $1,455,000.



OUTLOOK FOR *Consumer Credit*

BY L. O. HOOPER

IN 1944, total retail sales in the United States reached a new high level of $69,000,000,000, about 9% above 1943 and 64% above 1939. According to the May issue of the Federal Reserve Bulletin, however, only about 22% of the 1944 volume was handled on a credit basis. This compares with 35% in 1939, 36% in 1940, and 34% in 1941. Installment sales declined from 13% in 1940 to only 3% in 1944.

The industry under discussion in this article finances installment sales and installment loans. Naturally, its volume has declined. The total consumer debt of the United States now is smaller, on a per capita basis, than at any time since the automobile industry became 'of age'.

Before the war, consumer 'savings' through the liquidation of installments constituted between one-third and one-fourth of the total savings. As early as 1942 not more than 10% of consumer savings was contributed by the liquidation of installments. At present, installment payments probably are down to around 2% or 3% of the total.

This is an unusual situation. Obviously, it will change. But how much? Economists disagree but let's venture an opinion.

Factors in the big decline in retail credit are: (1) The purchasing public has more cash than it can spend, (2) the unavailability of goods, especially 'big ticket items' such as automobiles, refrigerators, radios and oil burners, and (3) credit restrictions under Regulation 'W' of the Treasury Department, which demands large down payments and shortens the period of installment liquidation. The latter is the least important for the public cannot buy goods which are not available.

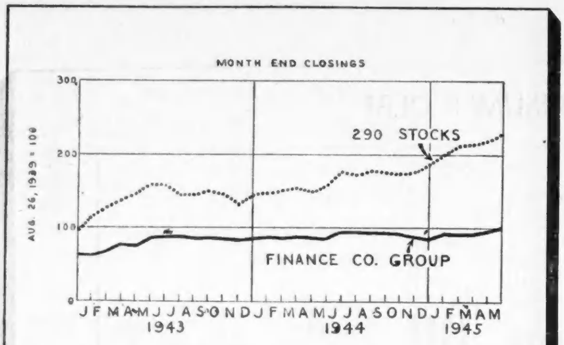
Millions of words have been written to prove that the American public will sell war bonds rather than arrange installment purchases when it once more begins to buy automobiles, refrigerators and washing machines. No doubt cash purchases will be substantial, but more often than not, in my opinion, they will be arranged without the sale of war bonds. Most people who congenitally are unable to save will have cashed their war bonds long before consumer goods are available. The thrifty people, who will hold most of the war bonds, are unlikely to liquidate their savings to buy luxuries.

The American public has the instalment habit. It regards the installment purchase of goods as a vehicle of thrift. Like life insurance, the installment plan is looked upon as a device to encourage semi-involuntary saving.

The advertising industry and the installment finance companies for years have done more than the politicians and statesmen to solve the greatest American economic and social problems, which is how to bind markets for our huge potential production. During the war, while we have been producing for destruction and victory, this problem has been forgotten. Soon it will stare us in the face again.

The great unsolved riddle is how to attain civilian markets big enough to absorb the tremendous output of the factory assembly lines of the United States when labor is fully employed. Here the advertising industry and the installment selling industry will once more be in a strategic position because they are so essential if full employment is to be maintained.

After an initial boom of a year or so when consumers will scramble for goods, producers will be-



gin the biggest scramble for markets that this country has ever seen. It is inevitable because the productive capacity of America has been increased so much in so short a time.

It should not be assumed, however, that the installment finance industry will reattain 1941 volumes and 1941 earnings quickly. In the first place, the supply of durable consumers goods (big ticket items) will reappear rather slowly. Few automobiles will be made this year and it seems improbable that production will reach 1,000,000 cars per quarter before late 1946. Washing machines, refrigerators and radios may be available a little earlier, but they do not absorb the volume of accommodations needed by the motor industry. Consequently, the percentage of cash sales during the early part of the automobile boom probably will be abnormally high. Regulation W, in some revised form, may remain in force through most of next year. The first buyers of cars may finance to a considerable extent through the banks rather than through the finance companies, and many of them will not have to finance at all.

Finance company earnings will not return to 1941 levels until receivables (earnings assets) are built up once more. One should not confuse the act of purchasing receivables with the realization of earnings therefrom. One reason the finance companies were able to maintain their earnings so well in 1942 was that they were cashing in profits from receivables acquired in 1941 when the public enormously stepped up purchases of durable consumers' goods because it expected such items soon to be unavailable.

The recovery in finance company earnings is more likely to appear in 1948 than in 1947, even though purchases of paper, especially in 1947 and late 1946 should show a very big increase.

At the end of last year, the receivables of C.I.T. Financial Corp., the biggest unit in the industry, were a little under $100,000,000 compared with almost $600,000,000 at the end of 1941; and the receivables of Commercial Credit were down to $84,400,000 compared with $394,800,000 in 1941. It will take a long time to rebuild the credit structure which the war has liquidated.

The banks began to enter the sales financing field in 1934. By the end of 1940, about 86% of all the insured commercial banks in the country were handling installment paper of some kind. A recent survey conducted by the Committee on Consumer Credit of the American Bankers Association indicated that practically 95% of the banks will be engaged in some phase of postwar consumer lending. The total percentage of automobile paper held by the finance companies declined from 70% in 1939 to 64% in 1941, while the total percentage of credit on other consumer goods held by the finance companies dropped from 60% to 55%.

The installment companies are fully aware of this competition and are taking steps to meet it. They will exploit their natural advantages. The automobile dealer prefers the efficient service organization of the finance company—it is more elastic and more cooperative. Also, he usually has close relations with the finance company in arranging wholesale purchases of cars. The finance company is in position, partly because of its experience and partly because of its freedom of regulation, to provide more service than the banks. One of the larger companies not only collects a commission of about 25% on the fire and liability insurance premiums on the car sold, but also gives the customer a substantial life insurance policy good for the term of the loan. Three big organizations own their own insurance companies. Often the finance company will give better payment terms than the banks, also requiring a smaller down payment.

Bank competition, however, will remain keen. Plans for a nation-wide syndicate of banks to facilitate installment sales financing in smaller communities provide an example of what is in store.

The gross profit margins on installment financing is very high, especially now that money is obtainable on such liberal terms. The finance companies are able to borrow money at 2% or less and

Statistical Data on Leading Finance Companies

	Gross Operating Income 1941	1944	Net per share 1941	1944	Div. per share 1936-9 Av.	1944	Working Capital 1941	1944	1944-1945 Price Range	Recent Price	Dividend Yield	Price-Earn. Ratio
Asso. Investment	10.827	3.668	$4.66	$3.25	$2.75	$1.80	33.575	23.257	49 -33	49	3.6%	15.0
Beneficial Ind. Loan	27.187	24.924	2.36	1.93	1.87½	1.35	63.379	56.188	25 -17	24½	5.5	12.6
Commercial Credit	29.322	7.830	4.65	2.80	5.03	2.25	151.136	76.858	46¾-37½	46¾	4.8	16.7
Commercial Invest. Trust	53.376	12.149	4.78	2.10	4.48	2.55	261.766	116.427	53⅛-40⅛	52¾	4.8	25.1
Household Finance	22.649	17.740	6.11 b)	5.31(b)	5.00(a)	4.00(b)	62.558	59.279	28 -25⅞*	27	4.9	15.2

(a)—1937-9 Avge. *—1945 only, after 3-for-1 split. (b)—Before 3-for-1 split.

reloan it at so-called 6% rates, which really figure up to about 11% since the borrower pays interest on the full amount for the duration of the loan rather than on the unpaid balance. Most installment purchasers of cars are fully aware of this practice and do not object to it. They are willing to pay for the accommodation.

C.I.T. FINANCIAL CORPORATION (formerly Commercial Investment Trust) is the largest factor in the installment finance business. In 1941, it purchased $1,638,000,000 of installment paper. It is engaged not only in the financing of automobiles but also in factoring for textile companies, in the sale of other durable consumers goods, and in the arranging of modernization loans. Factoring receivables have become increasingly important during the war and have counted for 47% of the total at the end of 1944. In 1936, the company purchased the National Surety Corp. for $11,500,000. Earnings each year since 1940 have been in excess of $2,000,000. During the war it has been engaged in manufacturing in a small way through a subsidiary called the First Industrial Corp. C.I.T. now is paying dividends at the rate of $2.00 per annum and apparently is just about covering the disbursement with earnings. From 1938 through 1941, the dividend rate was $4.00 per annum, and earnings ranged between $4.34 and $4.78 a share. At present, the company is borrowing very little money but total borrowings at the end of 1941 were over $460,000,000. As business improves, no doubt borrowings again will increase.

COMMERCIAL CREDIT is the second largest company in the field. In 1941, it purchased over $1,000,000,000 of receivables and had $394,800,000 of receivables outstanding at the end of the year. This company now is paying $2.00 per annum and is earning a little more per share than C.I.T. Financial Corp. In the immediate prewar period, its per share earnings ranged between $4.00 and $4.65 per share, and dividend payments between $3.00 and $4.00 per annum. In the past, Commercial Credit stock usually has sold at a somewhat lower price than C.I.T. Financial Corp. In 1942, Commercial Credit acquired the American Credit Indemnity Co. and the Calvert Fire Insurance Company.

ASSOCIATES INVESTMENT CO., prior to 1940, was engaged solely in the installment financing of automobile sales. More recently it has diversified its business to include F.H.A. modernization loans, commodity and inventory loans, and personal loans. It also owns an insurance company and during the war has had a subsidiary engaged in the business of making war materials. The common stock now pays $1.80 per annum, compared with earnings of $3.25 a share in 1944, $5.60 in 1940, and $6.05 in 1939. The dividends in the immediate prewar years ranged between $2.00 and $3.00 per annum.

The three principal small loan companies in which there is a sizeable public interest are Household Finance, Beneficial Industrial Loan, and American Investment Co. of Illinois. All of these companies operate under state laws permitting the lending of money in small amounts at maximum rates of interest ranging between 2% and 3½% per month. The volume of loans outstanding with personal loan companies has declined during the war due to the fact that their clientele has had less need of accommodation.

All of these companies have excellent earnings records and a surprisingly small loss experience. Over a long period of years the business has proved to be a sound one. Sometimes it is threatened by legislative action but as a rule, legislators feel that the public is better protected when this type of accommodation is handled by big companies rather than by small and unscrupulous 'loan sharks'. In late years there has been more bank competition in personal loans, but the banks frequently will not handle the type which involves larger risks.

Investors often shy away from personal loan company shares because they do not wish to participate in profits from this type of business. It is a prejudice not unlike that against whiskey shares. This often has caused stocks like Household Finance and Beneficial Industrial Loan to sell on a higher yield basis than their investment qualities would appear to justify. Lately, the quest for income has been so intense, however, as to cause much of the former prejudice to disappear. Consequently, the yield differential has narrowed.

On the whole, finance company shares in the past have broadly reacted to indications of the war's duration, improving when war news favored early conclusion of hostilities and vice versa. At present, prices appear to strike a fairly good balance between current restricted earnings and postwar prospects while the shares of small loan companies have reflected the recent moderate improvement in loan volumes. Future potentials justify a constructive attitude to (*Please turn to page 400*)

Wartime Decline in Volume of New Loans Made by Finance Companies

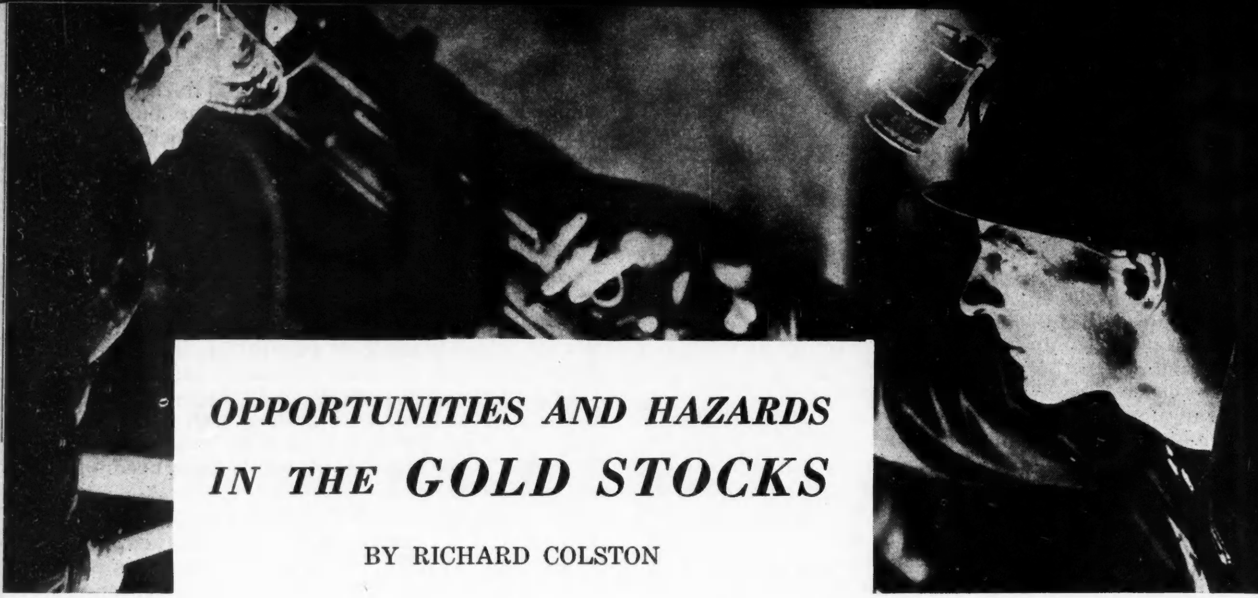
	—Receivables Purchased— Year Ended Dec. 31, 1941	Year Ended Dec. 31, 1944
Associates Investment	$251,616,771	$ 77,165,771
*American Investment of Illinois	38,171,510	33,841,215
Commercial Credit	1,018,586,326	469,682,898
C.I.T. Financial (a)	1,638,679,148	693,292,000
*Beneficial Industrial Loan	158,124,842	127,519,683
*Household Finance	165,225,204	156,078,822

*—Personal loan company.
(a)—Total volume all business.

Wartime Decline in Earning Assets of Finance Companies

	—Receivables at End of Year— Dec. 31, 1941	Dec. 31, 1944
Associates Investment	$104,589,000	$ 23,804,000
*American Investment of Illinois	19,631,454	17,172,000
Commercial Credit	394,814,000	84,465,000
C.I.T. Financial	585,703,686	99,454,300
*Beneficial Industrial Loan	82,925,898	54,035,000
*Household Finance	80,058,881	58,213,400

*—Personal loan company.



OPPORTUNITIES AND HAZARDS *IN THE* GOLD STOCKS

BY RICHARD COLSTON

Canadian National Railw

MATTERS having to do with gold, or gold stocks, or both, have figured prominently in the financial news recently. For the gold mining industry, of course, the big news has been the lifting of war-time bans on gold mining by the United States and Canadian governments, of which we shall have more to say a bit further along in this article.

With respect to the monetary aspect of gold, there has been widely published conjecture—first emanating from London—about a possible upward revaluation of the Canadian dollar to restore its parity with the United States dollar. There is no official confirmation, and American bankers are skeptical that any such action is in the wind. If taken, it would have some important implications—one of which would be a lower price, in terms of U. S. dollars, for the output of Canadian gold mines. We shall also have to revert to this hereafter.

There has been a third aspect of the recent "gold news". Federal and State officials having some responsibility for the protection of American investors (and speculators) have made quite a fuss—though they can't take direct action—about high-pressure Canadian gold stock promotions, in exploitation of the American public, which would be illegal, if initiated in this country, under the Securities Act of 1933; and also illegal under the laws of many states. This, also, we shall revert to.

Finally, on the New York Stock and Curb Exchanges, the San Francisco Exchange and the Toronto Exchange, the shares of reputable and established gold mining companies have been making financial news recently by strong advances, many to the highest prices in several years.

In short, in the world of gold, there are many things stirring; and in the subject of gold itself, ever old and ever new, there is much of importance and human fascination. Almost from time immemorial, man's quest for this precious yellow metal has been ceaseless. The gold "rushes" in California, Alaska, South Africa and, in more recent years, Canada have made volumes of colorful history. A very few lucky individuals have made fabulous fortunes—"struck it rich"—out of gold finds. Far larger numbers have searched—and speculated—in vain. The business now is largely in the hands of corporations or promoters. In preponderant degree, the venturesome individual "prospectors" today are uninformed stock speculators who would not recognize a gold-bearing vein of ore if they stumbled across one.

Academic theorists and financial writers have talked a lot about the complex monetary functions of gold, the gold standard—which, in its pure form, is now but a relic—modified gold standards, managed currencies, etc. There has never been any real question, despite occasional conjecture to the contrary, that gold would ever cease to be "valuable". We can dismiss this matter by saying simply that all gold produced can be marketed at an assured price. The price is, of course, subject to change by governmental fiat, but the changes—periodic revaluations of most currencies—have historically been upward far more often than not.

The human motives behind the recent much increased demand for gold shares are no doubt mixed. In the case of stocks of established companies, some people have probably bought simply on the reasoning that the now permitted resumption of mining operations, since it implies substantial recovery in war-depressed earnings and dividends, is bullish. This is quite correct and the only question, as we shall see, is whether present market prices over-discount the probable coming rise in earnings.

On the other hand, some buyers have had a different—or a supplementary—motive: the thought of possible (or probable, as some observers believe) post-war currency revaluations. It need hardly be said that on this score one is on highly conjectural ground. And it is even more conjectural, assuming revaluation, that gold stocks will prove to be a profitable "hedge" against this type of "inflation."

What the individual can do with gold has been a matter of increasing governmental restriction. In days gone by, one could escape a depreciating currency, or profit therefrom, by holding gold coin or bars, or by acquiring holdings in a stable foreign currency in the exchange market. That is no longer

legal, nor is it feasible on a bootleg basis for the average investor. In 1933-1934 when the dollar was first depreciated, in terms of gold, and then revalued, our Government left a loop-hole which, in retrospect, appears both strange and socially indefensible. Gold-mining companies and their stockholders were permitted to reap a wind-fall profit. In the writer's opinion, that is unlikely to happen again. At least in this country—perhaps also in Canada—I believe a special tax would probably be levied against any increment in gold-mining profits resulting from currency revaluation.

As for the prospect of revaluation, the only object—on a basis of world collaboration, such as is implicit in the Bretton Woods program and is clearly our policy—would be to bring the currencies into a workable alignment. If this required a higher dollar price for gold, which is not yet by any means demonstrable, the change probably would be relatively moderate and almost certainly far smaller than the increased price in the 1934 revaluation. There would be no object in "encouraging" a higher commodity price level or in providing a broader base for bank credit expansion, for we will emerge from the war with a materially inflated, rather than depressed, commodity price level; and we already have a base for bank credit expansion broad enough for any conceivable national need.

While on this subject of revaluation, it is difficult to see why Canada would wish to end the 10 per cent disparity between her dollar and ours. That would reduce the value of U. S. dollar balances accumulated here by Canadians. It would end such advantage in export trade as the 10 per cent discount provides. It would encourage imports from the U. S. It would to some extent cut into American tourist business in Canada. It would lower the price, in U. S. dollars, of Canadian gold-mine output and to that extent affect Canadian gold stocks in our security markets. True, the Canadian dollar is undervalued in relation both to our dollar and the pound sterling; and eventually it probably will be brought into alignment, but this is more likely to be done as part of a broad international arrangement, with some quid pro quo for Canada, than by any unilateral action.

On the whole, for the reasons stated heretofore, it seems to this writer that investors, and speculators, interested in gold shares would be well advised to dismiss the question of currency revaluations as an important consideration in appraising the potential values in these stocks. To recapitulate, it is conjectural whether the price of gold will be raised within the foreseeable future, unlikely that any rise in dollar price would be more than by a relatively small percentage in any event, and very dubious that gold-mining companies, in event of revaluation, would be permitted to retain the profit increment.

If this view is correct, gold stocks should be appraised pretty much on the same basis as the stocks of producers of any other commodity—with the special qualifications, of course, which attach to gold-mining as a business. Let it be said at once that there are few, if any, fields of enterprise in which the longer-term risks are greater for the absentee stockholder or in which he has so little to go on in trying to weigh, or guess, the longer-term potentialities.

A primary question is the quantity and quality of gold-bearing ore reserves. Mining engineers can establish this with adequate accuracy, in terms of so many years of "normal" production. In some of the richest mines, such as Homestake, blocked-out, proven reserves are large enough for nearly 15 years of full production; and the mine may well be profitable for many additional decades. But the outside stockholder has only the management's word to go on. When once excellent mines have begun to peter out, as many have, the "insiders" know the facts first. The absentee stockholder customarily finds out that "something is wrong" after his stock is well down from previous best levels. In the case of new promotions, this question of the quantity and quality of the gold in the mine—or, more usually, on the "location", for many promotions never even reach the stage of actual mining—is the most doubtful, and offers the greatest scope for fraudulent or misleading representation.

Moreover, there is no method by which mining engineers, or anybody else, can "discover" what the future level of operating costs may be. Proven ore

Statistics on Leading Gold Stocks

	Share Earnings			Dividends		Market Prices			Work.	Cash	Book
	*Pre-War High	1939	1944	*Pre-War High	1944	*Pre-War High	1944-45 Range	Recent	Cap. (Millions)	Items (Millions)	Value Per Share
Alaska Juneau	a$1.52	a$0.75	ad$0.18	$1.35	Nil	33	8¼- 5½	8⅛	$1.20	$0.62	$12.76
Dome Mines	a2.13	a1.97	a1.45	2.25	$1.50	34⅞	27⅜-21½	25⅞	9.44	10.71	8.52
Hollinger Consolidated	a1.22	a1.15	a0.45	1.40	0.46	17½	12¼- 8⅝	11⅝	4.04	3.18	6.84
Homestake Mining	4.05	3.54	d0.57	7.00	Nil	68	55½-39	55⅛	12.52	12.80	11.04
Lake Shore Mines	a5.07	a3.54	a0.76	6.00	0.80	62⅞	23 -12	21½	4.55	4.60	2.74
McIntyre Porcupine	a4.65	a4.66	a2.95	3.00	3.33	59¼	61½-47	57⅞	21.10	21.90	27.60
Natomas Company	1.47	1.47	0.02	1.00	0.50	13¼	12½- 9	12½	1.56	1.37	11.49
New York & Honduras Rosario	4.71	4.42	2.88	4.65	2.75	69½	36⅜-21¼	36⅜	3.05	2.75	21.92
Pioneer Gold Mines	0.91	0.45	d0.03	0.80	Nil	15⅞	6⅝- 1¾	5⅜	1.61	1.55	1.21
Premier Gold Mining	a0.35	0.12	0.02	0.16	0.03	4½	1⅞-13/16	1⅝	1.09	1.10	0.57
So. Amer. Gold & Platinum	0.36	0.25	0.13	0.30	0.20	7⅛	5¾- 3¼	4¾	2.98	2.65	2.90
Teck-Hughes Gold Mines	0.67	0.42	0.16	0.60	0.25	8⅛	4⅞- 3⅛	4⅞	3.23	3.40	1.91
Wright-Hargreaves Mines	a0.74	a0.74	a0.27	0.70	0.25	10⅜	4½- 2⅞	4½	4.78	5.5	1.25

*—Of period 1933-1939. a—Before depletion. d—Deficit.

reserves profitable at a given level of operating costs may not be profitable, or may be much less profitable, at a higher level of costs two years, or five years, later. Indeed, since the selling price is fixed—except for the uncertain and, in any event very infrequent, matter of monetary revaluation—operating cost, in relation to quality and quantity of gold ore mined, is the whole story.

For this reason, the best time to buy gold stocks is at the top, if you can guess it, of a business boom. Their profits suffer when the cost of supplies, equipment and labor increases. They thrive on business deflation, low prices for commodities, plentiful labor supplies. True, a few mines—McIntyre Porcupine is an example—are blessed with a fair amount of flexibility. This one has rich reserves of ore, varying considerably in gold concentration. It can therefore fare better than most in stabilizing profits by working the richest ores when costs are high and lower-grade ores when costs are low. But few are in this position.

As a generality, gold-mining companies are now in a period of high, and rising, costs. It appears probable that costs will be unfavorable—or less favorable than in past periods of maximum profits—for at least several years to come: in fact, until the next depression. Nor will these companies benefit from the probable degree of post-war tax reduction that one can reasonably anticipate, for they are not now, of course, paying any excess profits taxes. Since the mines have either been shut down, as in this country, or operating on a restricted basis, as in Canada, the proper perspective in appraising earnings potentials is to compare them with results in the best pre-war years, rather than with the low profits, or losses, of the past several years. On this basis, the writer does not see much, if anything, to enthuse about.

Showing what rising costs can do, total earnings of six representative gold companies decreased about 19 per cent between 1935 and 1941, while profits of 381 industrial companies rose over 88 per cent. Quite a few individual companies had their best earnings in 1934 or 1935, when the $35 gold price was new and costs were still low. Others, by expanding quantitative or qualitative output, or both, reached peak earning power variously between 1936 and 1939.

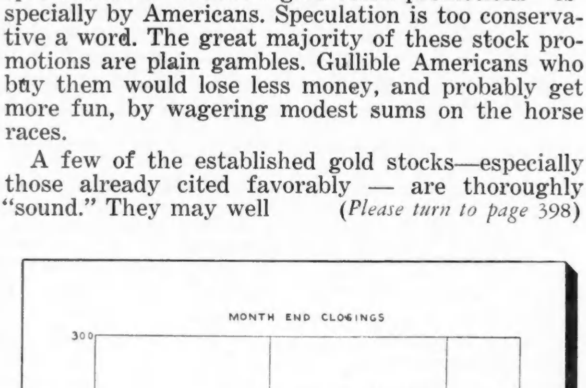
Now in stabilized situations, such as Homestake normally is, the writer finds it hard to see how earnings, on the basis of a continuing 40 per cent Federal tax and the prospective level of operating costs, can come anywhere near average pre-war levels. I venture the guess that they are unlikely to exceed $3 a share, after depletion allowance, for the next several years; and they may well be somewhat less. Moreover, it will be some time before this company, or any other in the business, can establish full production. They have official permission to mine gold, but no priority on equipment, supplies or labor. In effect, they have been told by the War Production Board: "Go ahead and operate—if you can." Probably it will be in the second 12-month period after this "green light" that full output is attained. On this basis, Homestake—by far the best American issue—does not look cheap at recent prices around 55. True, it can pay out about all it earns, and thus is potentially a $2.50 to $3 dividend payer, as the writer calculates it. That probable future yield is not bad ,but yields on gold stocks ought to be, and normally are, rather liberal.

Now it is quite possible that earnings of some companies may be expanded, despite higher costs, by new discoveries or acquisitions. It is true in any industry that increased output may more than offset lower operating margin. But it is difficult for the outsider to select such companies with any degree of assurance. Gold, in commercially-exploitable quantities, is much harder to find than oil. Hence, for the average company, the hazard of long-term depletion is much greater than for the average large-scale oil producer, and the chances for expanding proven reserves less.

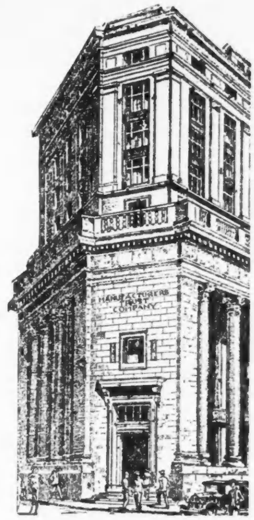
With respect to either proven reserves of good quality, or ability to expand them (whether by internal development or by acquisition) the best companies appear to be Homestake, Dome, McIntyre Porcupine and Hollinger Consolidated. As the accompanying tabulation shows, McIntyre Porcupine is the best of these in terms of present earning power, dividends, cash resources and book value per share. All the others on the list are quite speculative. Lake Shore, once a great mine and the source of the huge fortune of the late Sir Henry Oakes, is an example of a "petering out" mine.

Warnings against speculations in new Canadian gold promotions have been issued by law enforcement officials in various state, including New York. The SEC recently stated that it has about 100 docketed investigations of Toronto brokers and issuers who are "illegally offering securities into the United States in violations of the Securties Act of 1933 and the Investment Company Act of 1940." It is the practice of the SEC to notify the Ontario Securities Commission of such violations, which is all it can do. It appears that up to now the Ontario Securities Commission has not cooperated. In fact, it would seem that the Ontario Securities Commission favors speculation in Canadian gold stock promotions—especially by Americans. Speculation is too conservative a word. The great majority of these stock promotions are plain gambles. Gullible Americans who buy them would lose less money, and probably get more fun, by wagering modest sums on the horse races.

A few of the established gold stocks—especially those already cited favorably — are thoroughly "sound." They may well (*Please turn to page* 398)



WHAT OF THE BANK STOCKS?



Courtesy of Manufacturers Trust Company

With Assets at New Peaks

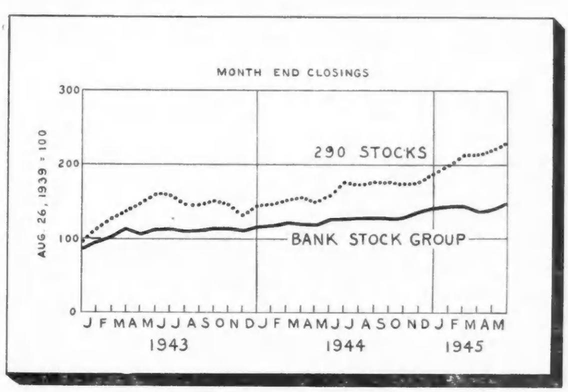
BY PHILLIP DOBBS

ONE of the brightest spots in the nation's economy as the difficult period of reconversion looms nearer is our private banking system. Emerging from several years of severe test in financing the huge war expenses of Government and industry, banks throughout the country generally are making substantial earnings, are stronger than ever, and enjoy unusually well marked potentials for continued prosperity.

Broad inclusion of carefully selected bank stocks in individual portfolios has been slowed down perhaps because they are not listed on the major exchanges, and for the reason that the unique and rather complex operating factors of banks defy intelligent analysis by the average investor. Indeed, while a trend toward wider ownership of bank stocks has marked the last decade, and as many as 150,000 investors now own shares in one large institution, a fair guess would be that blind faith in the management rather than a primary understanding of operating problems and opportunities has been the basis of most investment procedure in this interesting field. The public has become increasingly well educated in the language and implications of industrial balance sheets and reports because nearly everyone has some understanding of the production and distribution of goods, but to set up and sell financial service appears in the main highly involved and mysterious.

Reduced to its simplest terms, a bank derives income from interest on its loans and investments plus fees from many special services rendered to its clients, and its lendable funds are derived from two sources—its own invested capital, including earnings retained in the business, and deposits. Not all of these funds, however, may be put to work, as in order to protect depositors a required percentage of cash resources must always be kept on hand; to prevent undue pyramiding of deposits in relation to a bank's capital structure, supervisory authorities keep a close eye on the situation, requiring further capital investment when in their judgment such a step appears wise. Obviously, upon the fullest and most profitable employment of lendable funds depends the gross income of the bank and, after deduction of operating expenses and taxes, the net income accruing to the stockholders.

Also at times when mounting deposits provide increasing lendable funds, as during wartime, lower interest rates still sustain earnings on a satisfactory level for the much smaller amount of capital involved. For example, a bank with a paid in capital of $1 million might have $15 million of funds at work earning only 1% and yet produce $150,000 gross income, and if operating expenses were $50,000 the percentage earned on the capital would be 10%, a very satisfactory figure. That no exaggerated figures have been presented is shown by the fact that in 1944, net earnings of 13,268 commercial banks insured by the Federal Deposit Insurance Corp. equalled 9.7% on their average capital accounts, the latter including both paid in capital and surplus. Quite evidently the nation's banks are doing well for their stockholders, in spite of record low interest rates.



Banking, like industry, has learned some valuable lessons since the crash in the early 1930s, and during a decade the position of both depositors and stockholders has been immeasurably strengthened. Increased governmental control of bank activities for many years now, while not always welcome to the sounder institutions able to carry on successfully through every crisis in the nation's history, has wiped out of the picture thousands of badly managed banks, contracted the possibilities of speculation, eliminated many objectionable practices and assisted in stabilizing the banking business in all sections of the country. No longer are security affiliates permissable, and by order of the Comptroller of the Currency investments must be of quality caliber; doubtful assets have been largely liquidated, and through operation of the FDC, the

possibility of disastrous runs upon banks has been greatly lessened.

Lastly, and supremely important, 6,814 banks out of 14,535 in the country have become members of the Federal Reserve System, by which step they are enabled instantly to rediscount qualified loans in order to maintain adequate cash reserves. All of these improvements spell added protection for a bank stockholder compared with former years when investments in bank stocks often turned out sadly; and as since 1933 double liability of bank stockholders has become a thing of the past, the present-day shareholder in ably managed institutions may be more confident in his position. Furthermore, to boost his faith are keen eyed bank examiners periodically checking up all operations of his bank, a protective feature denied him in the field of industrial investments.

From the foregoing it should not be assumed that investment in bank stocks is a riskless venture, as the basic nature of the banking business unavoidably involves risks beyond the control of the most astute management, and the ability of executives may vary in infinite degree. But by and large, modern precautions to protect depositors have surrounded bank stockholders with an imposing array of advantages which do not appear in other investment categories, while circumstances arising from war conditions have combined to fortify safety factors both now and in the approaching years of peace.

Tremendous changes in the banking picture have occurred under the impact of war. Since December, 1940, deposits of all banks in the country had risen from $75.9 billion to $141.4 billion at the end of 1944, the vast increase being of course mainly attributable to Government borrowings to supplement revenues inadequately supported by tax receipts to finance the war effort. Although during this same period commercial loans expanded by merely $2.3 billion, bank holdings of Government obligations rose from $20.9 billion to $85.8 billion, almost exactly covering the deposit increase of $65.5 billion. At the beginning of the current year, accordingly, banks had loaned the Government over 50% of their swollen deposits and in this process had gained a nearer riskless position than ever in their history, for no stronger investments than U. S. Government obligations exist.

Earnings and Interest Trends

Earningswise, the effect of this upward trend in lendable funds has been most interesting, as for the last ten years a reverse trend in interest rates has featured the money market, and during wartime the Government has seen to it that they remain at lowest possible levels. The average rate for commercial loans ranges from 2.54% to 2.59%, longer term Governments yield about 1.68% with 0.77% the current return upon the shorter issues most popular with the banks. But capital funds have not risen apace with the gain in deposits, as is shown by a decline in their ratio from 11.2% in 1939 to 6.3% at the end of 1944. Thus in spite of low yields, substantial dollar amounts of earnings have streamed in to bolster profits for shareholders, the average net return to all insured commercial banks on their

Statistical Data on Leading American Banks

	Wartime Increase in Deposits (12/30/40-3/31/45) Per Cent	Earning Assets as % of Total Resources 3/31/45	Government Securities as % of Total Earnings Assets 3/31/45
LEADING NEW YORK BANKS			
Bank of Manhattan	53.0%	77.2%	62.6%
Bank of New York	23.7	83.1	73.6
Bankers Trust Company	12.0	83.1	68.6
Brooklyn Trust Company	73.0	79.2	81.6
Central Hanover Bank & Trust Company	31.9	80.5	75.5
Chase National Bank	26.9	81.0	73.2
Chemical Bank & Trust Company	40.4	83.9	73.7
Commercial National Bank & Trust Company	51.3	80.6	81.0
Continental Bank & Trust Company	108.4	79.3	57.2
Corn Exchange Bank & Trust Company	80.0	77.1	90.5
Empire Trust Compay	50.0	82.8	76.4
First National Bank	14.4	86.1	80.6
Guaranty Trust Company	30.0	84.3	75.5
Irving Trust Company	36.8	80.0	75.9
Manufacturers Trust Company	93.4	79.4	75.6
Marine Midland Corporation	84.9 a)	81.0(a)	72.8(a)
J. P. Morgan & Company	—2.6	81.9	83.5
National City Bank	43.1	79.1	76.1
New York Trust Company	43.3	82.0	67.3
Public National Bank & Trust Company	148.6	81.0	71.0
United States Trust Company	5.0	84.1	78.3
LEADING OUT-OF-TOWN BANKS			
Bank of America (San Francisco)	165.9(a)	75.9(a)	73.7(a)
First National Bank (Boston)	58.5	73.6	68.2
First National Bank (Chicago)	71.5	80.2	70.5
Harris Trust & Savings (Chicago)	65.6	76.6	64.8
Penn Company for Ins., etc. (Philadelphia)	35.9	73.5	73.0

(a)—Statistics are as of 12/31/44.
(b)—Adjusted for 33⅓% stock dividend in December, 1944.
(c)—Till June 13, 1945.

capital funds rising to 9.7% as previously pointed out, compared with 8.8% in 1943.

Were it not for the fact that earnings assets of the banks at present are so predominately invested in riskless Government securities, prudence would suggest that the current ratio of capital funds to deposits should be restored to somewhat higher levels by sale of additional stock, but under prevailing conditions the situation is eminently sound. During the industrial boom in the late 1920s, capital funds of the banks rose from $4.4 billion to $6.7 billion, mostly by retention of undistributed earnings, although large amounts of new capital stock were also sold at prices attractive to stockholders.

The 1929 crash, however, wiped out most of the cited capital gains and to carry on, a great many banks had to sell preferred stock or notes to the Reconstruction Finance Corporation. Through the exercise of very conservative dividend policies during the last decade, banking capital has once more been restored to almost its former dimensions from accumulated earnings alone, a process accelerated during prosperous war years. Including proceeds from a small amount of new stock, capital accounts increased abot $536 million in 1944 in the country's insured commercial banks, and to such a large extent have surplus reserves been built up among some of the larger institutions that declaration of stock dividends and increased cash distributions have occurred in a number of cases. As the trend of net earnings in 1945 still continues upward, more widespread benefit to stockholders may well develop in the not distant future.

A number of contributing factors highlight the improved earning capacity of the banks, aside from large receipts of interest. With business throughout the country on an usually sound basis in 1944, losses and charge-offs totaled only $266 million, the smallest in a decade, and for the third year in a row, recoveries from previously written-off losses or profits on securities sold exceeded charge-offs, receipts from these sources amounting to $362 million in 1944. Operating efficiency of the larger banks has been extraordinary during war years, in view of the huge increase in business they have been obliged to handle, and their extensive losses of personnel to the Armed Forces. New York City members of the Federal Reserve System, a representative group, had to pay out from 1944 income only 27.6% for salaries and wages, or about half the relative percentage required by most large industrial concerns. By the use of remarkably developed counting, calculating and bookkeeping machinery, costs of maintaining the most complex banking records have been reduced to a striking minimum.

Sources of Income

A progressively satisfactory source of banking income in recent years has also bolstered earnings and undoubtedly will continue to do so; this is the increasing number of fees charged for special services, as well as the widening scope of lending activities. Whereas in former years charges for handling deposit accounts were rare, fees from this source in 1944 accruing to the New York banks mentioned accounted for 3% of gross income, while as much as 15.3% came from fees (*Please turn to page* 394)

Statistical Data on Leading American Banks

—Net per common share— 1943	1944	1944 Div.	Times Div. Earned	Book Value per common 3/31/45	1944-45 Price Range** High	Low	Current Price 6/21 Bids	Current Yield	Price-Earnings Ratio
$ 1.66	$ 2.07	$ .90	2.3	$26.48	28¾	20⅞	27⅛	3.2%	13.4
24.42	27.00	14.00	1.9	421.67	470	375	463	3.0	17.1
4.57	5.16	1.16⅔	4.4	46.36	52	39⅝	49½	2.3	9.6
5.19	7.35	4.00	1.8	179.02	128	85	121	3.3	16.1
7.28	9.81	4.00	2.4	105.46	115¾	95¼	117¾	3.3	12.0
5.09	3.01	1.40	2.1	39.51	45⅝	34¾	44⅛	3.1	14.6
2.81	5.86	1.80	3.2	45.72	58½	44	60⅝	2.9	10.3
3.61	4.36	1.60	2.5	52.51	53½	44	50¼	3.1	11.5
2.14	2.01	.80	2.5	24.77	25¾	17½	24	3.3	11.9
3.56	3.96	2.40	1.6	51.49	58½	43⅝	57½	4.1	14.5
7.06	8.04	3.00	2.7	100.59	99½	70	96	3.1	11.9
106.16	124.27	80.00	1.5	1297.98	1935	1450	1805	4.4	14.5
21.83	24.03	12.00	2.0	339.05	373	298	359	3.3	14.9
.90	1.07	.70	1.5	21.79	18	12½	17¼	4.1	16.1
4.37	4.86	2.00	2.4	45.34	64¾	43½	66¼	3.0	13.6
.86	.91	.16	5.7	11.32(a)	8⅝	6⅛	8⅛	1.9	8.9
21.66	26.57	6.50	4.1	224.23	317(c)	210	320	·2.0	12.0
6.28(d)	3.98	1.00	3.9	37.16	45½	31¾	46⅛	2.1	11.5
6.14	6.89	3.50	1.9	89.74	110¼	86¾	111¼	3.1	16.1
3.01	4.06	1.36	2.9	47.31	50¾	31⅛	44¾	3.0	11.0
82.72	80.06	70.00	1.1	1528.50	1515	1260	1515	4.6	18.9
4.04	6.70	2.40	2.6	41.48(a)	63½	44	66*	3.6	9.8
2.90	3.14	2.00	1.5	40.12	57	46¾	56	3.5	17.8
27.27	29.31	8.00	3.6	206.05	325	220	311	2.5	10.7
19.07(b)	22.98	9.00	2.5	270.43	525	370	390	2.3	17.0
2.21	2.40	1.60	1.5	28 96	42⅛	33½	42	3.8	17.5

(d)—Includes recoveries from surplus of $229 mill or $3.70 a share.
*—Recapitalization in process.
**—Till May 31, 1945.

INVESTMENT AUDIT OF

Alleghany Corporation

BY ROGER CORLESON

Alleghany Corporation Photo

IN THE 1920's the promotion of pyramided holding companies ran riot in the utility industry because a long period of rapid growth was foreseen and the public was willing to "snap up" almost any kind of a security with a utility name. In the railroad field, the growth glamor was lacking, since revenues had reached their peak about the middle of the 1920's due to motorized competition. Hence Alleghany Corp., organized in 1929, is the only outstanding example of a railroad holding company, developed in the hectic 1920's. (During earlier periods some use had been made of the device by promoters, but on a smaller scale.)

The late O.P. & M.J. Van Sweringen, two Cleveland bachelors and erstwhile news-boys, had accidentally worked their way into the railroad field. Their first ventures were in real estate in the Quaker Hill district; they next acquired a trolley which served that district. This brought them to the center of town, where they became interested in terminal problems. The big New York Central system had become tired of carrying the Nickel Plate—originally built as a competitive or nuisance project, and frequently "in the red". President Smith, taking a fatherly interest in the Van Sweringen boys, sold them the Nickel Plate on a shoestring basis about 1916. This later brought the brothers into successful contact with the Central's bankers—J. P. Morgan & Co. and the First National Bank.

Once bitten by the railroad virus, and encouraged by gains in earnings during World War I, the Van Sweringens began building up a tangle of investment and holding companies on the usual pyramided basis. The brothers gradually acquired a number of other roads, including Buffalo, Rochester & Pittsburg (later sold to B. & O.), Erie and Chesapeake & Ohio (controlled through Chesapeake Corp.). Alleghany was incorporated early in 1929 and furnished a new medium by which the brothers acquired additional interests, such as Wheeling & Lake Erie, Pittston Company (which controlled several industrial properties), and Pere Marquette Railway. They also were emboldened to attempt what other rail promoters had failed to accomplish—the building of a transcontinental line. A substantial interest in Missouri Pacific was acquired, as well as a controlling interest in Kansas City Southern.

It would require several books to describe the ramifications and changes in the Van Sweringen rail empire. As with the utility holding companies, properties were tossed back and forth in the system or sold to outside interests, to obtain needed cash during the stormy period of the early 1930's. Alleghany had been founded at an unfortunate time, and the Van Sweringens soon found control of their vast rail and real estate empire sinking in a quicksand of debt. Even the Morgan-First National connection was insufficient to keep the pyramided structure from falling apart. In the middle of 1935 control of Alleghany passed to the Mid-America Corporation, which acquired various securities sold to satisfy personal Van Sweringen loans. Mid-America was controlled by George A. Ball (elderly Muncie, Indiana millionaire maker of glass jars) and G. A. Tomlinson of Cleveland. Ball later acquired Tomlinson's interest, but soon lost interest in his speculative "flyer" and turned over control of Mid-America to a family charitable foundation.

New Control

At this time, Mid-America owned 48% of Alleghany. In 1937 new interests appeared on the scene —Robert R. Young, F. F. Kolbe and A. P. Kirby (a Woolworth millionaire who probably acted as "angel" for the group). About 43% of Alleghany common (1,933,810 shares) was bought from the Ball interests for a reported $4 million cash and $2,375,000 notes (secured by 1,200,000 shares). Kolbe soon dropped out, but Messrs. Young and Kirby still continue in virtual control (the former as Chairman, and the latter as President). Vice-President Leonard P. Ayres of the Cleveland Trust Company also continues as Vice-President of Alleghany—a hold-over from the Van Sweringen regime, when he was a director.

In 1939 the Ball Foundation announced that Young and Kirby had surrendered the 1,200,000 shares of Alleghany held as collateral for their note, but subsequently nearly a million shares were transferred back to the Young-Kirby group. Mr. Kirby now owns nearly one-quarter of the stock.

The new owners of Alleghany Corp. were plagued by continued litigation. After the question of stock control was settled by final retirement of the Ball interests, a series of legal skirmishes ensued between Young and the Guaranty Trust Company, trustee for the bond issues. In 1929-30 Alleghany had issued $25,000,000 collateral 5% bonds, in three series, secured by the company's valuable rail holdings, including Chesapeake Corporation and Chesapeake & Ohio. Unfortunately the indentures of all three issues provided that the value of the collateral would have to be maintained in an amount 50% greater than the outstanding bonds. This provision was very difficult to maintain during the big slump in security prices, and as a result the Guaranty Trust tried to gain control of the Chesapeake properties.

However, the Yong-Kirby interests succeeded in retaining control of C. & O.—backbone of the Alleghany system. In recent years they retired two of the three Alleghany bond issues, and refunded the third into $30 million secured convertible 3¼'s due 1954. Finally, this remaining note issue was eliminated by converson into Chesapeake & Ohio stock (the small remaining balance being redeemed on March 5, 1945). The only debt now is a $10,718,000 secured bank loan held by the Manufacturers Trust Company. There are two issues of preferred stock —11,410 shares of $2.50 prior preferred and 667,539 shaes of $5.50 "A" preferred, together with 4,522,597 shares of common stock.

The cash dividends regularly received by Alleghany from C. & O. (one of the steadiest of railroads) enabled the company to survive the disastrous 1930's. But the long fight with the Guaranty Trust Co. over control of C.&O. apparently persuaded Messrs. Young and Kirby to get rid of the troublesome bond issues, even though it was necessary to sacrifice a great deal of the Chesapeake stock to do so. However, while Alleghany now holds only 606,634 Chesapeake shares (about 8%) this remains a controlling block and Mr. Young retains the post of chairman of the railway. Moreover, Chesapeake still retains some of the old Van Sweringen interests in Pere Marquette, Nickel Plate and Wheeling (doubtless sold to Chesapeake to help raise cash in the old days). Control of Erie was lost when that company went through bankruptcy and Missouri Pacific control may be lost in the same way (though Alleghany has a large amount of MOP bonds which may give it substantial control).

Alleghany's present portfolio (year-end data adjusted for the decrease in C. O. holdings), valued at recent prices where public markets exist, is shown in the accompanying table. The biggest item is still Chesapeake—worth about $32,000,000 currently. The preferred and common stocks of Pittston Company (holding company controlling varied industrial interests, principally coal and trucking) are worth about $7,000,000. The notes of Terminal Shares, Inc. (a wholly-owned subsidiary) are carried at about $4,000,000; the company controls some hybrid interests known as "North Kansas City properties". In addition to these items there is a block of Lehigh Coal & Navigation shares and a substantial portfolio of bonds of bankrupt or reorganized rails other than the $8,000,000 Missouri Pacific issues worth about $11,000,000.

Alleghany Corp. Portfolio

(Adjusted for Sale of C. & O. Holdings in 1945)

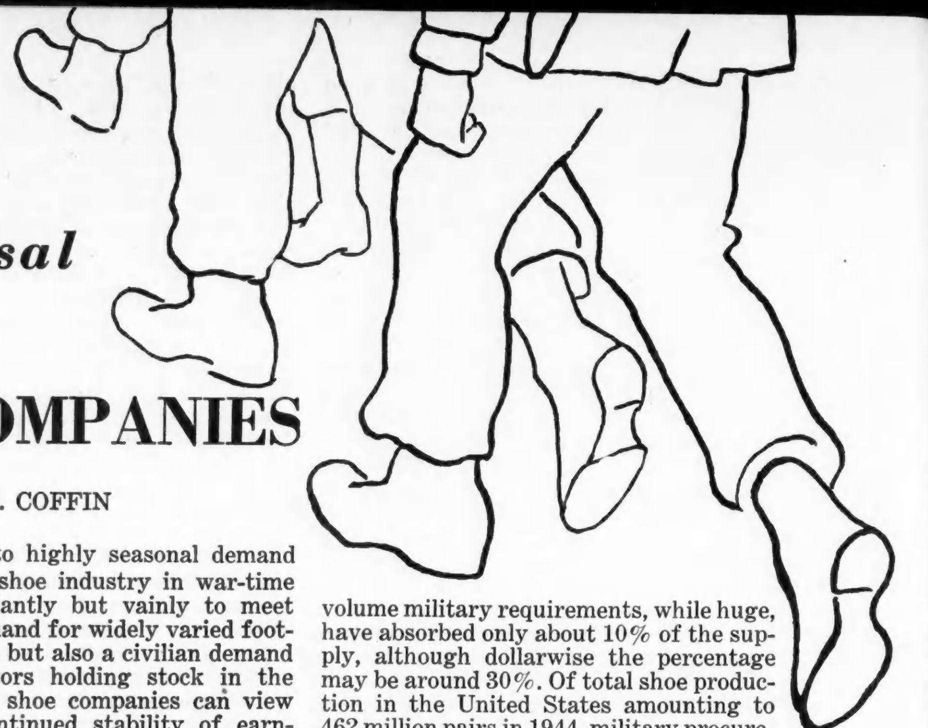
	No. of Shares	No. of Bonds	Recent Market Price	Value ($ Millions)
Cash assets, less current liabilities				$7.5
Chesapeake & Ohio Common	606,614		53	32.0
Lehigh Coal & Navigation	25,146		14½	.4
Pittston Co. Class B preference	29,190		100	2.9
Pittston Co. Common	248,120		16	4.0
Missouri Pacific 5½/49		11,152	40	4.5
Mo. Pacific Ref. 5s (various series)		3,325	92	3.1
Chic. & N.W. 1st 4/89		103	112	.1
Chic. & N.W. 2nd Inc. 4½/99		1,612	93	1.5
St. Paul 5/75		750	83	.6
St. Paul Genl. 4/89		810	100	.8
St. Paul Genl. 4½/89		921	100	.9
Rock Island 4/34		268	69	.2
Rock Island 4½/52		54	75	.....
Rock Island 4/88		131	104	.2
Denver & R. G. Western 5/78		263	70	.2
Denver & R. G. Western 4/36		309	71	.2
Denver & R. G. Western 4½/36		141	73	.1
Florida East Coast Ref. 5/74		224	73	.2
International-Gt. Northern 6/52		540	86	.5
International-Gt. Northern 5/56		656	79	.5
Kansas City, Fort Scott & M. 4/36		274	92	.3
Milwaukee & Northern 4½/39		54	100	.....
New Orleans, T. & M. 5½/54		42	99	.....
New Orleans, T. & M. 5/54		180	95	.2
New Orleans, T. & M. 5/56		113	94	.1
New Orleans, T. & M. 4½/56		324	93	.3
New Haven Ref. 4½/67		632	76	.5
New Haven Conv. 6/48		367	78	.3
New Haven Deb. 3½-4s (various series)		199	71	.1
Rio Grande Western 4/39		211	105	.2
Rio Grand Western 4/49		30	78	.....
St. Louis San Francisco 4/50		2,080	60	1.3
St. Louis San Francisco 5/50		86	61	.....
St. Louis San Francisco 4½/78		1,703	47	.8
St. Louis San Francisco 6/36		12	48	.....
St. Louis Southwestern Terminal 5/52		66	93	.1
Seaboard Air Line First 4/50		222	111	.3
Seaboard Air Line First 6/45		1,022	71	.7
North Kansas City properties				4.2*
TOTAL PORTFOLIO VALUE				$69.8

*—Stated value of securities and notes held by Terminal Shares, Inc. (wholly-owned subsidiary), after reserve of $8,776,729 against original cost of $13,000,000.

Most Assets Pledged

Most of the assets, except the Terminal Shares, are pledged under the bank loan. Alleghany has been trying to dispose of the North Kansas City properties but thus far has not obtained an attractive bid; when these are disposed of, doubtless the bank loan will be reduced. In fact, it is surprising that some of the present cash assets (about $7,500,000 after deducting the small current liabilities) have not been applied to writing down the bank loan.

What is the position of the preferred stocks? As of December 31, 1944 dividend arrears on the prior preferred stock amounted to $25.62 per share, and on the $5.50 preferred $75.17 per share. Assuming that Chesapeake continues to pay $3.50 (the dividend was covered by only a 7 cents margin last year), Alleghany's annual income from this source will be about $2,100,000. Income from the balance of the portions is diffi- *(Please turn to page 396)*



Reappraisal of the SHOE COMPANIES

BY H. S. COFFIN

NORMALLY subject to highly seasonal demand characteristics, the shoe industry in war-time has been struggling valiantly but vainly to meet not only an enormous demand for widely varied footgear for our armed forces but also a civilian demand larger than ever. Investors holding stock in the half dozen or so leading shoe companies can view with satisfaction the continued stability of earnings achieved by them under difficult conditions imposed by war, and can look forward with confidence to the industry's eventual return to normal operations.

In the past, traditionally well assured income return rather than any particular growth characteristics have tended to impart shoe equities relative freedom from severe price fluctuations. While this has detracted from speculative attraction, it has added to the investment appeal peculiar to components of an industry which supplies a basic economic necessity.

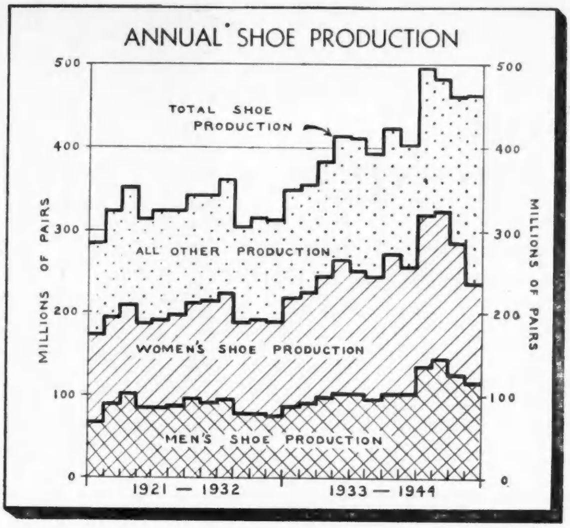
Reasons for the unusual degree of stability in the shoe business are obvious as both in good times and bad, we all wear shoes and wear them out. Varying consumer income, while boosting dollar sales during periods of prosperity, nevertheless faces an irreducible minimum even during economic crises. And since the industry's productive process is highly mechanized, operating costs are rather easily controlled when volume does decline.

Also most of the leading shoe manufacturers enjoy strong cash positions which enabled them to sustain dividend distributions even when earnings tended to thin in times of severe depresson. These advantages of course find an offset in the fact that shoe consumption has a definite top limit as well as a bottom. In flush times the average person may pay more for footwear but in terms of units bought, the increase is likely to be minor. Upon population growth, therefore, rests the industry's main reliance for additional volume, over the longer term, and while population growth is consistent, it is also a very slow process.

Readers anxiously awaiting validation of the next shoe ration stamp in August may understandingly exonerate the shoe manufacturers when discovering that available civilian footwear is at the lowest level since the outbreak of war, and may wrongly comfort themselves that the bulk of shoe output has to be diverted to the armed forces. Curiously enough, this is far from true; in terms of unit volume military requirements, while huge, have absorbed only about 10% of the supply, although dollarwise the percentage may be around 30%. Of total shoe production in the United States amounting to 462 million pairs in 1944, military procurement took 45 million pairs during the first 11 months, and cutbacks in shoe orders from Washington have since occurred.

Fact is that quality rather than quantity has caused all the war-time trouble with the civilian shoe supply, and it has been possible to produce only about 264 million pairs of leather rationed shoes for the public during the last year, the balance being represented by the less desirable unrationed type of makeshift footwear of multiple description, many with soles of wood, plastic or rubber and with tops of cloth or synthetic materials. Most important in the picture is that to make the right kind of a shoe for a soldier requires three times as much leather as for a civilian, and there just is not enough available leather to satisfy everybody. To fill the void in civilian markets, therefore, manufacturers produced 150 million pairs of non-rationed shoes in 1944, a mark which is not likely to be exceeded in the current year as retailers are afraid of getting caught with heavy stocks of these less popular items if Government restrictions should ease later in the fall, an not unlikely event.

During war years the shoe industry has experienced almost unlimited demand in the face of the well-known handicaps of shortage in manpower and materials. Peak volume for the shoe makers, however, occurred in 1941, for in that year the much heralded approaching lack of supply caused an unusual rush of civilian buying to stock up while the stocking was good, pushing total production close to half a billion pairs of shoes, or 150 million pairs above the 1927-29 average. Since then the trend has been slightly downward, although volume figures have been much above prewar levels with corresponding improvement in pretax earnings. Excess profits taxes, however, generally have taken a heavy toll, leaving net available for dividends on a fairly comparable basis with those of years before the war broke out, and distributions to stockholders as a rule have undergone no change since



Pearl Harbor, at least among the most important concerns.

Production policies of the leading shoe manufacturers of course differ widely, importantly affecting their operations and current problems; some concentrate upon men's footwear exclusively, the most stable division of the industry; while others confine output to shoes for women, a field more sensitive to changes in fashions as well as to variations in consumer's income. Distribution methods also vary, partly because of factors of quality and price and partly for reasons of policy in selecting market outlets. While most shoes are sold through wholesalers to the retail trade, some manufacturers sell direct to the stores and others operate their own retail chains.

Shortage of sole leather of top grade, due to enormous military demand, has naturally been a severe handicap to shoe manufacturers, and has been largely responsible for the present limitation by rationing to one and a half pairs of shoes a year for civilians. Pressure from the public to buy higher quality and more expensive shoes has benefitted specialists in their manufacture to some extent, although rising costs and rigid ceiling prices have steadily narrowed profit margins, while makers of the less expensive lines have been hard put to it in finding satisfactory substitutes for their normal output. Current shoe shortages have made it possible to sell large quantities of the low-price goods in spite of their relative unpopularity, but profits are thin and volume is likely to experience a drastic contraction when better quality merchandise will get more abundant.

Without question, a huge and well assured backlog of deferred civilian demand for good shoes has been built up during war years, and what a bright outlook it provides for well established shoe manufacturers in the not too distant future, when plentiful supplies of good materials reappear and manpower problems ease up. For a time at least volume should considerably exceed prewar levels and while price controls doubtless will remain in effect for some time, profit margins should improve and be further aided by tax relief, especially as to EPT. Consumers not only urgently need shoes but also perhaps never have they been so well equipped financially to satisfy their desires. In spite of the promising outlook for the shoemakers, however, it must be borne in mind that theirs is not a growth industry in the usual sense of the word, as previously pointed out; nevertheless, confidence in their ability to sustain ample earning power appears well warranted.

Experience in continuous production of shoes during war years has opened the eyes of the industry to the solution of one major handicap which has always marked its normal progress, and which it now proposes to correct. Merely as a result of age-old custom, seasonal buying of shoes for years has caused many a headache for all branches of the industry. Top-heavy inventories had to be accumulated by suppliers of raw materials, manufacturers and retailers alike, with ensuing periods of slack production and disruption of employment. While 52 weeks of employment usually were provided, the work week was often cut in half, and for long periods. And when production was most active, quality of the goods suffered in the rush to meet schedules. At a recent meeting of tanners, shoe manufacturers, jobbers and retailers it was unanimously voted to establish the industry on a full 52 weeks a year production and distributing basis at the earliest practical time, and it is believed that material benefits to cost controls will develop with the inevitable smoothing out of factory schedules and sales efforts.

With no reconversion problems to complicate matters, supply shortages are the main barrier to increased civilian produc- *(Please turn to page 391)*

Statistical Record of Leading Shoe Companies

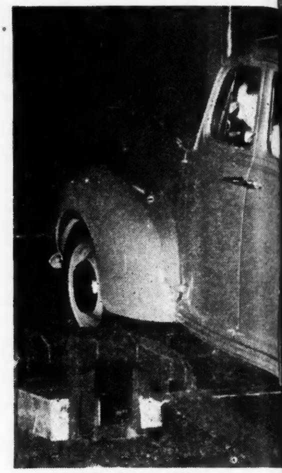
	in millions of dollars						Earnings per share						
	Net Sales		Total Assets		Working Capital								Price-
	1941	1944	1941	1944	1944	1941	1936-9 Avge.	1944	1944 Div.	Div. Yield	1944-5 Price Range	Recent Price	Earnings Ratio
Brown Shoe	$37.7	$53.3	$19.6	$20.7	$12.0	$13.9	$2.39	$3.19	$2.00	3.7%	53 -39¾	53	16.6
Endicott Johnson	80.9	95.6	49.4	54.3	27.0	33.1	2.76	3.34	3.00	4.4	70½-57½	68	20.3
Florsheim Shoe "A"	12.3	17.5	11.1	12.1	7.5	8.1	2.14	2.36	2.00	5.0	41 -24⅞	40	16.9
General Shoe	23.5	44.3	8.8	12.4	6.5	9.5	1.43	1.54	1.00	4.2	24¼-14⅝	23¾	25.4
International Shoe	116.5	156.6	87.9	90.9	61.6	64.0	1.91	1.78	1.80	4.3	43 -35½	41½	23.1

Cadillac Photo

WINDFALLS FOR SELECTED COMPANIES

—which will benefit from tax provision whereby reconversion costs may be charged against earnings.

BY J. S. WILLIAMS



Studebaker Photo

OF interest to shareholders in many concerns presently or soon obliged to consider heavy reconversion costs is the recent announcement of the Internal Revenue Bureau that under certain circumstances these expenses may be deducted from corporate taxable income. With the tax rate at current high levels, the certainty of substantial savings applicable to net earnings thus offers an encouraging feature for the difficult period of transition already begun.

Ever since the start of war, far-sighted managements have anticipated the inevitable drain upon their resources entailed by a shift from war production back to normal civilian output. While permission had been granted to charge the cost of preparing for military production against taxable income or make heavy depreciation allowances, it was impractical for the Government to alleviate the tax burden by further exemptions to offset vague sums of corresponding legitimacy set aside for reconversion and which only time could define. Only by progressive establishment of reserves from earnings already taxed from year to year could war-active industry build up adequate insurance to meet reconversion expenses, its extraordinary success in carrying out this program was fully discussed in a recent number of the Magazine, with emphasis on the resultant understatement of net earnings reportable to common stockholders.

From VE-Day to the end of the war in the East and until the final readjustment of industry to its normal role, the record will point up many instances where these wisely created reserves have set up a reservoir of available cash without which many even a strong concern might experience very difficult going. Many billions thereof are represented by cash in the bank or have been invested in Government securities, and it is from these funds that many concerns are already drawing during the expensive process of readjusting to peace-time operations.

Now comes the Internal Revenue Bureau and further assists industry in its reconversion struggle by lessening corporate tax payments during a reconversion year to the extent that definable expenses incurred in the change-over may be established. Thus it appears that numerous concerns are not only well prepared financially to meet the impact of readjustment but may be able to bolster net earnings during the transition in varying degree as well. Some instances are bound to crop up where over-conservative managements have established reserves far greater than circumstances will prove to have required, in which case potentials for dividend distributions may be doubly enhanced by the existence of no longer earmarked cash plus a portion of earnings relieved of tax pressure.

Estimates of reconversion expenses, on the other hand, may easily fall far short of the mark, not to mention inability of many concerns with limited war earnings to establish adequate reserves, or plain negligence on the part of certain managements to provide any reserves at all for postwar contingencies. It is in cases like these, and among smaller

(*Please turn to page* 392)

Postwar Reserves of Some Leading Corporations

($ millions)

AUTOMOTIVE	
Bendix Aviation	$21.009
Borg Warner	7.500
Chrysler	43.333
Eaton Mfg.	1.466
General Motors	76.051
Motor Products	.800
Nash Kelvinator	2.200
Packard	4.000
Studebaker	3.500
Thompson Prod.	1.605
CLOCKS and WATCHES	
Bulova	.600
Elgin National Watch	1.950
New Haven Clock	.150
ELECTRIC EQUIP.	
General Electric	15.000
Philco	1.000
R.C.A.	7.990
Westinghouse Elec.	33.555
REFRIGERATORS	
Crosley	$2.116
Electrolux	.650
SEWING MACHINE	
Singer Mfg.	22.000*
White Sewing Machine	.250
RUGS and CARPETS	
Artloom	.162
Bigelow-Sanford	.244
Mohawk Carpet	.700
STEEL PRODUCTS	
Bethlehem Steel	36.099
National Steel	10.642
U. S. Steel	125.685
FARM MACHINERY	
Case, I.I.	6.300
International Harvester	30.000

*1943

Answers ? to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Short Interest Figures

It has been noted from the recent press report that the stock exchange short interest figures for June 15, revealed an increase in such sales from May 15 to 1,554,069 shares, the same being the largest bear position in about seven years.

As a subscriber to your service I would appreciate your giving me your views and interpretation of this situation. Do you happen to know what class or classes of stock such short selling might be concentrated? I am enclosing herewith self addressed envelope for your rply.

Thanking you for your courtesy, I am
C. W., Wichita Falls, Texas

As the stock market has been rising for over three years and is now the second longest bull market on record; there are some traders who think that the market has gone too far on the up side and they are skeptical as to the value of certain issues, this has been reflected in the increase of the short position. Of the 1258 individual stock issues listed on the New York Stock Exchange on June 15th, there were 70 issues in which a short interest of 5000 or more shares existed, or in which a change in the short position of 2000 or more shares occurred during the month. These totals, which exclude all odd lot dealers' short position, were among the following important stocks.

Outstanding increases in the month were: Alleghany Corporation from 2,000 to 17,550, Baltimore & Ohio from 83,341 to 101,518, Commonwealth Edison from 1,825 to 13,625, Consolidated Vultee from 9,105 to 13,050, Grumman Aircraft from 14,255 to 16,470, New York Central from 34,176 to 38,660, and Willys-Overland from 45,969 to 48,024.

Notable decreases in the month were: United States Steel from 27,340 to 25,440, Pepsi-Cola from 39,811 to 35,827, International Telephone from 34,930 to 30,941, Hudson Motor from 37,375 to 26,660, General Motors from 34,045 to 31,039, Chrysler from 17,437 to 15,476, Bethlehem Steel from 11,575 to 8,435, Sante Fe from 13,114 to 9,634, and Baldwin Locomotive from 9,900 to 2,000.

The short position of stocks traded on the Curb Exchange as of June 15 was 91,145 shares, an increase of 8,143 shares over the total as of May 15.

Ten of the 896 stocks admitted to trading showed a short interest of more than 2,000 shares. The short position of Raytheon Manufacturing Company's common stock was reduced 1,030 shares in the month, from 6,815 shares to 5,785 shares.

Need for Well Balanced Diversified Investment Program

I have all my capital invested in 1200 shares of Bucyrus Erie. Will you please give me your opinion of my investment?
—C. F., Grand Rapids, Mich.

It is not a sound policy to have all your capital invested in one security, even if the equity is high grade, and that can hardly be said of Bucyrus Erie, as this stock is speculative.

Every investor should plan a well balanced, diversified investment program, in line with his or her objectives of safety of principal, income yield or capital appreciation; or a combination of these objectives.

It is best for a investor to divide his funds among various stocks with good growth prospects, in expanding industries.

Bucyrus Erie manufactures excavating and related machinery, caterpillers, shovels, wrecking cranes, dredges, etc. Company has been engaged 100% in war work since 1942. Earnings in 1944 amounted to $1.25 a share, subject to renegotiation, compared with $1.39 in 1943 and $1.04 in 1942. Dividend paid in 1944 amounted to 70c a share.

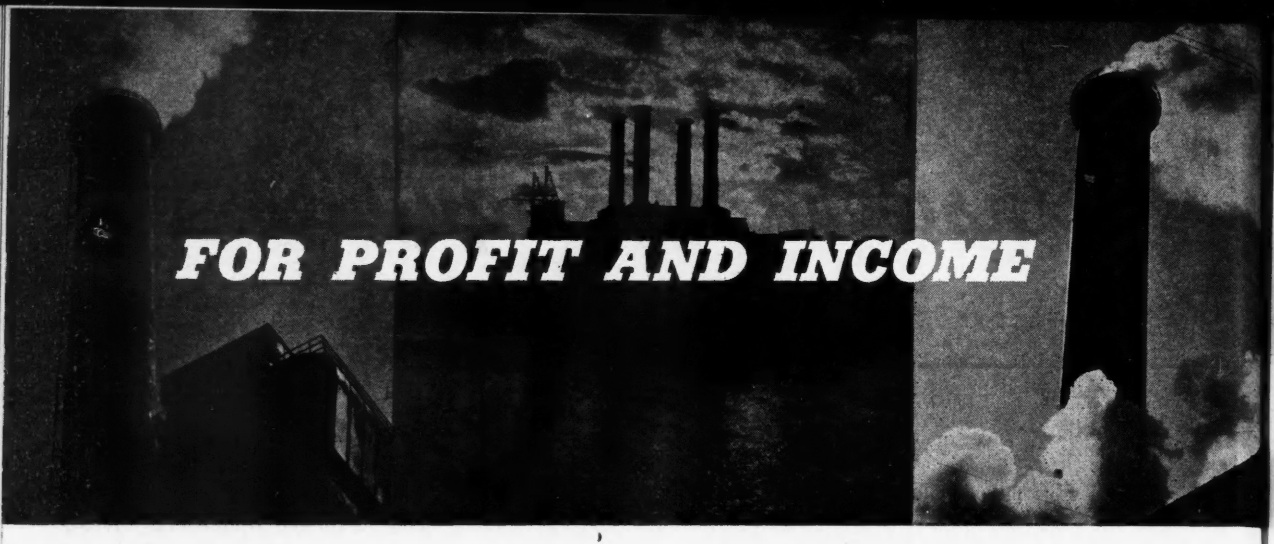
War stimulated demand promises relatively good earnings for the duration. Thereafter sales will probably resume their basic relationship to trends in construction and mining activities, with profits swinging over a wider range because of the leaverage of large overhead. Immediate post-war prospects are promising. Large deferred civilian demand for repairs and equipment parts should cushion the shock of contract terminations and extensive public works planned by the Federal, State and Local Governments should sustain equipment needs at good levels. Post-war export demand should also be large.

Willys-Overland Motors

What is the near term and post war prospects for Willys-Overland Motors, Inc.?
—L. J., Middleton, N. Y.

Willys-Overland Motors, Inc., sales for the half year ended March 31, totaled $103,757,623, an increase of 7½ per cent over the corresponding period of the

(Please turn to page 402)



FOR PROFIT AND INCOME

Margins

This is supposed to be a "cash-financed" bull market. Still, the boys seem to get at least a slight chill everytime there come rumors that margins may be increased again. To prove what a small margin position there is, the customary method is to state that brokers' loans equal only a little over 1 per cent of the total value of listed shares. With equal truth, you can say the total value of stocks changing hands on any given day is a tiny fraction of the total value of all listed shares. The real question is: What percentage of the daily buying is on margin? For some of the larger brokerage firms it has for some time been 40 to 50 per cent. This, of course, does not prove that the market is vulnerable. Neither does the "cash basis" argument prove it is invulnerable.

Rail Notes

With earnings over $20 a share and a big reduction in debt and fixed charges, Atchison appears to this department to be a logical candidate for a dividend higher than the $6 a year now being paid. Union Pacific may get back eventually to a $10 dividend ($6 for some years now) but a big debt reduction move will come first. Norfolk & Western, the cream of the crop, has gained nothing out of the war, paid $15 in various pre-war years, against $10 now, and not unlikely will get back to $15 after tax reduction. The good rails, including Louisville & Nashville, appear most soundly priced on a longer-term basis. Speaking of good rails, Great Northern preferred is selling around 55, Delaware & Hudson around 56. For this department's money, Great Northern is to be preferred.

Butler Brothers

The common stock of Butler Brothers has advanced from a 1942 low of 4¾ to a 1945 high of 19 7/9, and recently has been around 18. As the earnings last year were only $1.01 a share and the dividend only 60 cents, the stock looks far from cheap at first glance. But there may be more in this situation than meets the casual eye. The company is the largest wholesale distributor of general merchandise, and owns a chain of 122 variety stores and another of 28 junior department stores. Since the management has aggressive plans for expanding both wholesaling and retailing interests, it appears not unlikely that sales in time can top last year's figure of $116.5 million. If so, and with a profit margin no better than the moderate 4.5 per cent ratio of the pre-war year 1939, earnings could be close to $3 a share on a 40 per cent tax basis. Federal taxes last year took 69 per cent of earnings.

Phillips Pete

If there's a place for a sound and conservative oil in your portfolio, Phillips Petroleum might be considered. With crude production about equalling refinery runs, it is one of the best balanced, low-cost companies in the industry. It is the largest producer of natural gasoline. The forthcoming half-year report will show a nice gain, and profit for the full year is expected to top last year's $4.26 a share. On the one hand, there will be a leaner period for a year or two as war demands relax, and there is relatively little tax cushion. On the other hand, the longer-term outlook is promising, the financial position is excellent and

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Fairchild Camera & Inst.	Year Dec. 31	$3.08	$3.65
Davega Stores	Year Mar. 31	.27	1.04
Waukesha Motor	9 mos. April 30	1.11	1.49
U. S. Smelt. Ref. & Mining	5 mos. May 31	.20	.93
Continental Motors	6 mos. April 30	.88	.90
Caterpillar Tractor	12 mos. May 31	4.29	4.56
Champion Paper & Fib.	Year April 29	2.04	2.57
Willys-Overland	6 mos. Mar. 31	.66	.70
Pan American Airways	Year Dec. 31	.81	.97
Puget Sound Power & Light Co.	Year Dec. 31	2.05	2.21

the present operating margin is lower than it has been in many peacetime years. On 1937 volume only 58 per cent as large as 1944 the net was $5.42 a share or much more than in any war year; and the stock sold as high as 64, against 51 recently.

Distillers-Seagrams

For a long time it had been the periodic Schenley earnings reports that set the liquor stocks on fire. Since variety is the spice of life, we are glad to see Distillers-Seagrams come in for a share of this speculative limelight. Earnings for the nine months ended April 30 spurted to $6.91 a share, from $4.09 for the prior nine months. This department thinks the liquor outlook is good for the duration and pretty good for post-war, but that earnings will hardly stay at present exalted levels. After all, it's not hard to sell almost any kind of liquor now, at a good profit margin.

Bang!

That noise you hear is probably another stock being split. They are being whacked up all over the place. That has never happened before except in fairly advanced stages of bull markets. However, the time element between "fairly advanced" and "extreme" may be very extensive—as the late 1920's proved. Among the latest proposed splits are General Mills, W. T. Grant and Schenley. The first is a natural, since it is a high-priced stock. But Grant, pushed up above 50 on news of the split, was in the low 40's only a few weeks ago, and that surely is not high. Evidently the management wants to popularize the stock; and a higher dividend may be coming, for it would be well warranted by earnings. Schenley split three-for-two only last year and now will repeat with four-for-three, probably maintaining the $2 dividend on the new stock. Splits make spectacular share earnings look to be a bit less so. Thus, the $9.76 a share which Schenley has recently reported for the nine months ended May 31 would have been about $15.13 a share on the capitalization with which the company entered the war period. Nice going.

Kindness

Most companies don't hesitate to save money, at the expense of preferred stockholders, by forcing refundings on them at the lowest rate the traffic will bear. The rate of the new issues is determined solely, in most cases, by money-market conditions. An exception, which rates a cheer, is Hercules Powder Company. The preferred stock pays 6 per cent and has been callable at 120. The company has proposed, and preferred and common shareholders have approved, to reduce the dividend to 5%, effective Feb. 15, 1946, and to make the issue non-callable until 1950. That is uncommonly decent treatment of investors who put their money into this preferred stock in good faith. Others might well take notice. Investor good will is worth having, and it doesn't cost a great deal to get it.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Remington Rand	Year Mar. 31	$2.54	$2.01
Warner Bros.	6 mos. Feb. 24	1.24	.94
Spicer Mfg.	9 mos. May 31	5.84	5.37
Singer Mfg.	Year Dec. 31	15.44	15.12
Sperry	Year Dec. 31	3.83	3.77
Squibb (E. R.) & Sons	9 mos. Mar. 31	2.96	2.78
Philip Morris	Year Mar. 31	5.94	5.81
Union Pacific	5 mos. May 31	6.30	5.39
Atch., Top. & S. Fe	4 mos. April 30	5.83	4.67
Masonite	9 mos. May 31	1.36	1.16

Behind the Market

The Dow industrial average is substantially higher than it was in the late summer of 1939, when the war clouds were gathering fast. However, a number of good quality stocks are lower. Some of them are Air Reduction, American Tobacco, C. I. T. Financial, Consolidated Edison, General Foods, Howe Sound, Monsanto Chemical, National Biscuit and Woolworth. Probably there are some recovery candidates among these behind-the-market stocks. On longer-term potentials, this column's choice would be American Tobacco, C. I. T. and Howe Sound.

Puget Sound Power & Light Co.

This company's 1944 report reveals a number of new records. Operating revenue set a new high; other records were established for the number of customers using electricity, for energy delivered and for the number of bus passenger carried by the company's transportation lines. If net earnings nevertheless fell somewhat below last year's ($2.05 per share in 1944 against $2.21 in 1943), it was due to the fact that in 1943 there was a special tax saving resulting from deductions for cost of refinancing incurred in that year. Eliminating this nonrecurrent item, comparable 1943 net per share would have been $1.98. The company is actively engaged in the formation of plans and blueprints for expanded business and job opportunities in the postwar period with primary consideration given to conversion of war production facilities to postwar needs.

National City Bank

Speaking of banks, discussed in detail in a special article in this issue, National City lately has been strengthening its executive staff by appointment of DeWitt A. Forward as Senior Vice President while Leo N. Shaw, Vice President, was given the additional title of Deputy Manager Overseas Division. Mr. Shaw is known as one of the foremost foreign exchange experts. With the gradual revival of European economies, National City's overseas division is likely to become increasingly active, resuming the leading role it played in financing American foreign trade to all quarters of the globe.

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: Since our last review two weeks ago, the bond market has been strong with the largest gain being shown in the Dow-Jones average for defaulted rail issues. The latter showed a gain of 3.61 points, while the average for second grade rail bonds was up .86 and the average for forty bonds was up .20. New Haven refunding 4½s rose to a new high of 80¾, while Philadelphia & Reading's new securities were in demand at around their best levels on record. Texas & Pacific non-callable 5s of 2000 advanced more than six points to sell above 146. Municipals held firm. In the foreign field, Poland 8s of 1950 sold at 37½, a new high for the year.

COLUMBIA GAS & ELECTRIC $6 CUMULATIVE PREFERRED STOCK: This security was reviewed in this column on March 3rd, 1945 and recommended at a price of 94¾. It has now moved up to 107 and including the dividend of $1.50 received since then shows a profit of 13¾ points. Inasmuch as this stock is redeemable at 110 per share, further appreciation potentials are limited and for investors interested in capital building, we would accept profit around current market price. The preferred stock sells ex-dividend $1.40 on July 19 and subscribers desiring to hold this preferred stock for its good income return may do so.

TILO ROOFING CO. INC.: This company has called for redemption on September 15, 1945, the entire outstanding 25,000 shares of $1.40 convertible preferred stock at the call price of $27 per share, plus accrued dividends of 35 cents per share which would normally be payable on that date. Retirement of the senior issue will leave as the company's sole capital obligation the 462,126 shares of common stock now outstanding.

INTERNATIONAL TELEPHONE & TELEGRAPH CORP.: The President of this company recently reported that since December 31, 1944, the parent company has paid off its 4% notes in the amount of $11,600,000 and $1,000,000 in 5% notes, thus leaving the corporation's debenture indebtedness of $72,271,000 as its only long term outstanding obligation.

W. T. GRANT CO.: A special meeting of stockholders has been called for July 18, to vote on a proposal to split the outstanding common stock two shares for one and to authorize a new issue of 250,000 shares of $100 par value preferred stock. This initial block of preferred stock is to carry a 3¾ per cent dividend. Proceeds from the sale of the new preferred stock will be used to redeem the old preferred stock not exchanged, with the remainder estimated at around $7,000,000 going into funds for expansion.

CONTINENTAL BAKING CO.: This company has filed a registration statement with the SEC covering $16,500,000 of new 20-year 3% debentures, maturing July 1, 1965. A special meeting of stockholders will be held July 24 for action on a proposed plan for reclassification of the company's 8% preferred stock into a new $5.50 cumulative dividend no par value stock on the basis of 1 1/20 shares of the new stock for each share of the old stock, plus a special cash payment of $7.50 for each share of the present preferred stock.

CORPORATION DE VENTAS DE SALITRE Y YODO DE CHILE (Chilean Nitrate & Iodine Sales Corp.) 5% sterling income debenture bond holders are being notified that payment of interest at the rate of 2½% for the half year ending June 30, 1945 will be made on and after that date. Payment will be made at J. Schroder & Co. in London, J. Henry Schroder Banking Corp. in New York and at Credit Suisse in Zurich.

TWIN CITY RAPID TRANSIT COMPANY: Has filed with the Minnesota Railroad & Warehouse Commission a petition requesting approval of a recapitalization plan under which back dividends of $49 per share on present preferred stock will be paid in new preferred stock. The proposal is that holders of the present $100 par value convertible preferred stock exchange each share for two shares of the new preferred stock with a par value of $50 per share. Dividends on the new stock will be payable at 5% compared with 7% on the present preferred. In effect, stockholders who convert will receive $50 in stock in lieu of the $49 in unpaid dividends. The plan has been approved by directors and if it goes into effect, the 5% stock will be senior to both common stock and 7% preferred stock not converted. (*Please turn to page* 402)

Bonds Called for Dedemption Recently

	Amount	Call Price	Redemption Date
Bethlehem Steel Corp. Series "F" 3¼s 1959	$500,000	101	July 1
Chicago & Northwestern 1st "A" 1989	entire issue	104⅜	July 1
Chicago & Northwestern S.C.P. 4s 1969	entire issue	102⅜	July 1
Chicago & Northwestern D.P.V. 4s 1969	entire issue	102⅜	July 1
Consolidated El. & G. Co. Coll. Tr. 6s 1937	$2,000,000	100	July 1
Erie Railroad D 4s 1995	entire issue	105	July 1
Georgia Power & Light 1st 5s 1978	entire issue	103½	July 1
Houston Oil of Texas 4¼s 1954	entire issue	101½	July 1
Interstate Debenture orp. debs 1995	entire issue	100	July 1
Kansas City South Rep. & Inc 5s 1950	entire issue	105	July 1
Kan. Okla. & G. Ry. Co. 1st 5s 1978	entire issue	104	July 1
Kings Co. Lt. Co. 1st & Ref. 5s & 6½s 1954	entire issue	105	July 1
Lehigh Valley C. & N. A&B 4s 1948	entire issue	105	July 1
Lehigh Valley C. & N. C 4s 1954	entire issue	105	July 1
Louisville & Nashville So. R 4s 1952	entire issue	105	July 1
Panhandle Eastern Pipe Line Co. 1st & 1st lien C 3s 1962	$500,000	101¼	July 1
Reading Co. Rp. A & B 4s 1997	entire issue	105	July 1
Texas Power & Light Co. Deb. 6s 2022	entire issue	110	July 1
United Pub. Util. A & B 5½s 1960	entire issue	103	July 1
Simmons Co. deb 4s 1952	entire issue	101⅛	July 16

KEEPING ABREAST OF INDUSTRIAL AND COMPANY CHANGES

In an important shift towards peacetime production, Aviation Corporation has paid $22 million for a controlling interest in the Crosley Corporation, and has offered to buy all minority stock at the same price per share—$39.

AVCO will thus assume a prominent place in the fields of radio, refrigeration, kitchen sinks, cabinets, gas and electric ranges and heating units. Not included in the deal was the Crosley automobile division, retained for manufacture by the Crosley family.

Another merger in the air is that proposed for Beech Aircraft Corporation and Cessna Aircraft Co. by an exchange of 1 share of Beech for 3 of Cessna. With closely related lines, operating advantages could well result during the difficult postwar period, especially in the small plane field.

Construction of new plants near the Mississippi River in Tennessee and Illinois is on the docket of International Harvestor Co., according to reports.

Jet engines with a stream flow of 1000 miles an hour, some no larger than an artillery shell, have been thoroughly tested by Westinghouse Electric Co. and may be of decided commercial value after the war.

The new Ozalid Printmaster now in production by General Aniline and Film Corporation can reproduce drawings, maps and photographic material at the astonishing rate of 30 feet per minute, without the use of wet developing solutions.

When Apex Rotorex Corporation is again able to offer civilians its well known washing machines, ironers and vacuum cleaners, radical improvements in design and efficiency resulting from wartime research will be featured.

Tripled speed in packaging frozen foods is claimed for a newly developed container of American Can Co., requiring no wrapping as the sides are of paraffined fiber board and the ends of light tin. Up to 200 packages per minute can be handled.

Prewar dependence upon Europe for cigarette paper made from linen rags has vanished with the war, as the finest of paper made from flax fibers is now produced in ample supply by domestic manufacturers, and even in 1943 our exports of flax paper soared to over 14 million pounds.

By far the largest producer in this industry is Eucusta Paper Corp., with a $12 million plant in North Carolina, along along with Smith Paper, Inc. and Peter J. Schweitzer, Inc. accounting for 90% of domestic production.

Postwar buyers of private planes need only to step into the nearest department store if retailers follow the lead of Marshall Field & Co. of Chicago. This concern expects to offer a two-passenger Ercoupe by October 1st.

In anticipation of increased civilian demand for tin plate products, United States Steel Corp., through two subsidiaries, plans to enlarge facilities to produce an additional 283,000 tons per year.

Tiffin, Ohio, has been chosen by General Electric Co. as the home of a new plant to be built for the production of small motors for electrical appliances and ballasts for fluorescent lamps.

To step up production of aluminum bomber parts and foil, Reynolds Metals Co. plans to expand facilities in two of its Louisville, Key. plants at a cost of $3 million but largely at DPC expense.

As Fiberglass is fireproof and resistant to moisture absorption, Owens-Illinois Fiberglass Co. has landed a large order from the Navy to replace kapok in life preservers.

To diversify production, Lion Oil Refining Co. has asked its stockholders for authority to manufacture plastics, chemicals, synthetic rubber and other items not strictly definable as petroleum products.

Tightening belts to fight black markets, 365 members of the United Independent Grocers & Food Dealers Association voted to add 1000 more stores to their joint buying venture. OPA gave its blessing to the move.

July output of security issues is likely to top 1 billion dollars, the largest amount ever offered in a matter of weeks. Easy money rates may stimulate refunding programs involving $700 million bonds, $259 million preferred and $100 million common stocks.

862 million pounds of candy is a lot, yet that is what the public will have to go without during the next six months, due to the sugar shortage, according to the National Confectioners Association.

High bidder for an experimental plant at Gloucester, N. J. no longer used by its owner, Sherwin-Williams Co., was American Cyanimid Co., the purchase price being $525,000. Calco Division of the buyer will take title.

Republic Industries, Inc., owners of 85% stock interest in Jacobs Aircraft Engine Co., has acquired the remaining 15% by exchanging 1 share of its own stock for each 3 shares of Jacobs'.

Engineers of General Motors Co. have designed a glass-enclosed penthouse for railway cars, built of laminated and heat-resisting glass. Seating capacity of a car is increased by 24 and where scenery is attractive the new seats should be at a premium.

First step of Barium Steel Co. in a series of planned mergers is the acquisition through its subsidiary, Clyde Iron Works, Inc., of Erie Bolt and Nut Co., Erie, Pa.

An offer of $6.7 million dollars has been made by Oxford Paper Co., Rumford, Me., for the plant and 200,000 acres of timberland belonging to Maine Seabord Paper Co., now controlled by New England Power Co., and in process of divestment by order of SEC.

Growing popularity of air-transport certainly will not suffer from the recent announcement that 16 air lines had completed their 1944 schedules without experiencing a single fatality. Automobile owners take notice.

Piling up of surplus and reserve accounts continues to enhance prospects for stock split-ups. Several await only stockholder approval, a foregone conclusion, and many more are likely to feature the approaching months.

Schenley Distillers Corporation proposes to give stockholders four shares of $2.50 par common for each three shares of $3.33 par value now held, if the measure is approved at the August 15 meeting.

On August 21 stockholders of General Mills,, Inc. will vote on a proposal to split the common three for one, no change in the capital and surplus of the company resulting therefrom.

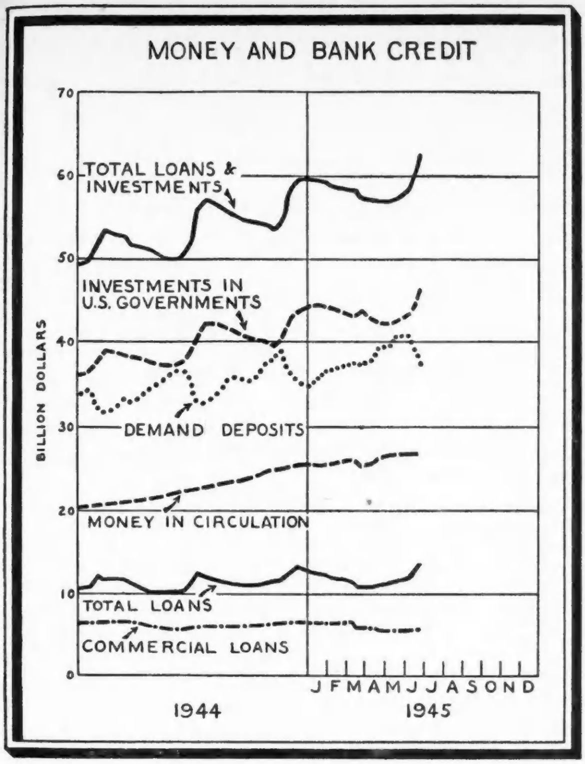
Wingfoot Homes, Inc., in the Goodyear Tire & Rubber Co. family, is already turning out prefabricated three room and bath cottages to sell at $2000, as a result of several years research. The plant is near Phoenix, Arizona.

Latest development in the frozen food industry is a new chemical produced by the Port of Seattle. When mixed with water and applied to unfrozen fish, "No Bac", the new chemical, retains natural flavor and extends freezing dates by ten days.

Possible upward trend in pulp and paper supplies may begin early in August and continue until restrictions finally are released. Increased production and lessening military demands, plus larger imports brighten prospects for the paper industry.

99% of the capital stock of Massillon Aluminum Company has been acquired by Ekco Products Company, but no change in executive personnel is involved.

According to Graham-Paige Motors Corp., new cars to come off their assembly lines for civilians promise to forget 1942 models. Brand new design, and new tools and dies will account for the novelty.



SUMMARY

MONEY AND CREDIT — War bond sales in Seventh Loan Drive promise to top all previous records. May dividends were 2.4% below last ear; but five-months' total was up 1.4%.

TRADE — Department store sales in week ended June 16 spurted to 19% above last year, against gain of only 12% for four weeks and year to date.

INDUSTRY—Business activity holds at last year's level and unemployment early in May was 150,000 smaller than a year earlier, despite cutbacks and lay-offs at munitions plants.

COMMODITIES—Cash grains steady, while futures soar to new war-time altitudes. World food shortage, especially of livestock products, may last for three or four years.

The Business Analyst

Business Activity improved fractionally since our last issue, thereby managing to hold around last year's level. On a per capita basis, however, the index shows a decline of about 2%. **Department Store Sales** in the week ended June 16 spurted to 19% above the like period last year, compared with a gain of only 12% for four weeks and for the year to date.

* *

Cash **Dividends** paid in May were 2.4% below the like month of 1944; but for the first five months were still 1.4% more liberal than a year earlier. Among the major industrial groups, the largest five-months' increase (7.9%) was reported by Trade; but Rail dividends were 5% smaller.

* *

The Census Bureau places **Civilian Employment** at 51.3 millions for the first week of May—660,000 smaller than a year earlier. This includes Agricultural Employment of 7.95 millions—a drop of 650,000 below last year, attributed mainly to rainy weather which was retarding field operations at the time the sample was taken. **Unemployment,** however, is estimated at only 730,000, compared with 880,000 a year earlier. Up to early May, at least, there is thus no evidence that

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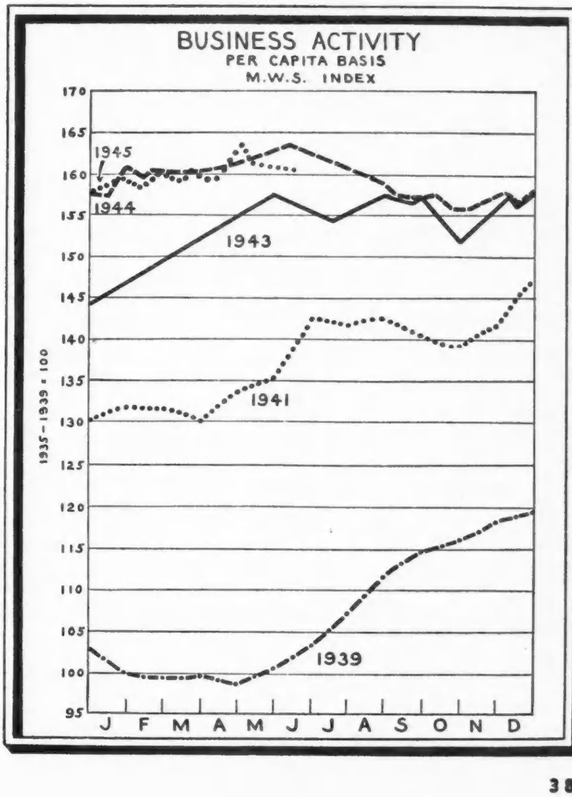


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	June 20	1.84	1.84	1.89	0.43
Cumulative from Mid-1940	June 20	287.6	285.8	196.1	14.3
FEDERAL GROSS DEBT—$b	June 20	249.9	242.4	188.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	June 20	46.3	41.2	36.4	24.3
Currency in Circulation	June 20	26.5	26.5	22.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	June 20	6.84	6.36	5.10	3.92
100 Other Cities—$b	June 20	8.21	7.85	7.36	5.57
INCOME PAYMENTS—$b (cd)	Apr.	13.18	13.69	12.58	8.11
Salaries & Wages (cd)	Apr.	9.55	9.58	9.14	5.56
Interest & Dividends (cd)	Apr.	0.81	1.34	0.81	0.55
Farm Marketing Income (ag)	Apr.	1.42	1.39	1.40	1.21
Includ'g Govt. Payments (ag)	Apr.	1.57	1.45	1.48	1.28
CIVILIAN EMPLOYMENT (cb)m	May	51.3	51.2	52.0	50.4
Agricultural Employment (cb)	May	8.0	7.8	8.6	7.7
Employees, Manufacturing (lb)	May	37.7	37.8	38.7	13.6
Employees, Government (lb)	May	6.0	6.0	5.8	4.5
UNEMPLOYMENT (cb) m	May	0.7	0.8	0.9	3.4
FACTORY EMPLOYMENT (lb4)	May	152	155	167	147
Durable Goods	May	202	207	230	175
Non-Durable Goods	May	113	114	117	123
FACTORY PAYROLLS (lb4)	Apr.	317	325	335	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Mar.	45.5	45.5	45.3	40.3
Hourly Wage (cents)	Mar.	104.5	104.3	100.6	78.1
Weekly Wage ($)	Mar.	47.51	47.43	45.64	31.79
PRICES—Wholesale (lb2)	June 16	106.0	106.0	103.7	92.2
Retail (cdlb)	Apr.	139.9	139.6	136.3	116.1
COST OF LIVING (lb3)	Apr.	127.1	126.8	124.6	110.2
Food	Apr.	136.6	135.9	134.6	113.1
Clothing	Apr.	144.0	143.7	137.1	113.8
Rent	Apr.	108.3	108.3	108.1	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Apr.	5.46	6.35	5.49	4.72
Durable Goods	Apr.	0.81	0.84	0.78	1.14
Non-Durable Goods	Apr.	4.65	4.51	4.71	3.58
Dep't Store Sales (mrb)	Apr.	0.50	0.63	0.48	0.40
Retail Sales Credit, End Mo. (rb2)	Apr.	2.21	2.41	2.04	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Apr.	346	353	280	212
Durable Goods	Apr.	553	574	403	265
Non-Durable Goods	Apr.	214	211	201	178
Shipments (cd3)—Total	Apr.	284	280	274	183
Durable Goods	Apr.	387	381	389	220
Non-Durable Goods	Apr.	213	210	194	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Apr.	26.7	26.7	27.9	26.7
Manufacturers'	Apr.	16.3	16.4	17.4	15.2
Wholesalers'	Apr.	3.9	3.9	4.1	4.6
Retailers'	Apr.	6.5	6.4	6.3	7.2
Dept. Store Stocks (rb)—I	Apr.	156	147	145	139

PRESENT POSITION AND OUTLOOK

(Continued from page 387)

cutbacks and lay-offs at munitions plants have resulted in any easing of the overall labor shortage.

* * *

A recent survey by the Commerce Department indicates that American industry plans to spend **$4.5 Billion for Plants, Equipment and Alterations** during the coming fiscal year—three times the 1937-40 average. In addition to this huge capital outlay, **Builders** are planning to erect 500,000 homes within the next 12 months; but lumber men are skeptical.

* * *

Unfortunately, the long list of new freedoms to resume production of civilian **Heavy Goods** reads better in print than it appears in practice to industrial executives charged with the responsibility of turning out goods for sale. As one commentator puts it: the releases amount to little more than "hunting licenses" to bag labor and materials when, where and if obtainable.

* * *

In last week's Business Analyst, direct costs of World War II up to the end of May were reported to have exceeded a trillion dollars. Estimates of indirect costs will be slower in coming in, but here are a few fragments: **Casualties** from the European phase alone, excluding civilians, numbered about 60 million, including 14 million killed and 5.5 million permanently incapacitated. On the other hand, the U. S. A. reports the marvelous achievement of moving 4,453,061 troops to Europe with the loss of only 3,604 soldiers through attacks on transports.

* * *

Merchant **Ship Losses** by neutrals and the United Nations totaled 4,770, aggregating 21.4 million gross tons, of which the U. S. A. lost only 538, aggregating 3.31 million gross tons.

* * *

War Destruction in Holland, excluding Nazi thefts estimated at $2,646 million, amounted to $3,024 million—between 25% and 30% of that country's national wealth in 1938.

* * *

Asserting that **Inflationary Forces** must be held in check, President Truman has announced that the **Little Steel Wage Formula**, except for substandard minimums in poor pay industries, will stand at least until after a thorough investigation of present wage and commodity schedules. Meanwhile, pressure groups continue to urge higher basic wage rates and farm products prices, as a large minority group in Congress seeks to abolish the OPA and "let nature take its course." This would be heaven for realty owners, producers

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	June 16	160.7	160.3	163.6	141.8
(M. W. S.)—I—np	June 16	174.4	174.1	174.3	146.5
INDUSTRIAL PROD. (rb)—I—np	May	227	231	236	174
Mining	May	138	140	143	133
Durable Goods, Mfr.	May	327	336	356	215
Non-Durable Goods, Mfr.	May	174	174	169	141
CARLOADINGS—t—Total	June 16	873	884	877	833
Manufactures & Miscellaneous	June 16	392	399	387	379
Mdse. L. C. L.	June 16	106	105	105	156
Grain	June 16	53	53	45	43
ELEC. POWER Output (K.w.H.) m	June 16	4,348	4,327	4,287	3,269
SOFT COAL, Prod. (st) m	June 16	11.9	12.1	12.2	10.8
Cumulative from Jan. 1	June 16	274	262	296	446
Stocks, End Mo.	Apr.	43.8	45.5	58.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 16	4.9	4.9	4.6	4.1
Gasoline Stocks	June 16	87.5	87.9	84.3	87.8
Fuel Oil Stocks	June 16	39.5	39.0	52.7	94.1
Heating Oil Stocks	June 16	30.4	30.3	34.1	54.8
LUMBER, Prod. (bd. ft.) m	June 16	526	517	643	632
Stocks, End. Mo. bd. ft.) b	May	3.2	3.2	3.3	12.6
STEEL INGOT PROD. (st.) m	May	7.48	7.29	7.70	6.96
Cumulative from Jan. 1	May	36.3	28.9	37.9	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	June 21	41.9	59.2	28.0	93.5
Cumulative from Jan. 1	June 21	830	788	857	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 16	130	190	148	165
U. S. Newsprint Consumption (st)t	May	284	280	272	352
Do., Stocks, End Mo.	May	494	489	430	523
Anthracite Coal Production (st)m	May	2.1	5.3	5.8	3.8
Machine Tools, New Orders—m	May	26.2	19.0	59.9	80.0
Portland Cement Prod. (bbls.)m	Apr.	7.1	6.4	6.5	14.9

PRESENT POSITION AND OUTLOOK

(Continued from page 388)

and distributors; but hell for white collar workers and consumers with fixed incomes.

* * *

The President also states that he is concerned about **Rising Real Estate and Security Prices;** but has not yet come to a conclusion on what steps should be taken. The cause, of course, is record earnings, low interest rates, and the impact of redundant liquid capital upon a frozen supply of investment media. For all of this, Government deficit financing is largely responsible.

* * *

The **Remedies Proposed**—large down payments on real estate; higher margins on securities; and heavier capital gains taxes and longer holding periods for both—would merely treat symptoms without removing the cause. Such measures, if adopted, would hamper sales more than purchases and so accelerate the rise in prices by drying up the available supply of investment media.

* * *

As President Schram of the New ork Stock Exchange correctly points out: "Any more drastic interference with the transfer of capital assets would check the flow of **Venture Capital,** would put a brake upon the operation of job-creating processes and would result eventually in a frozen economy."

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

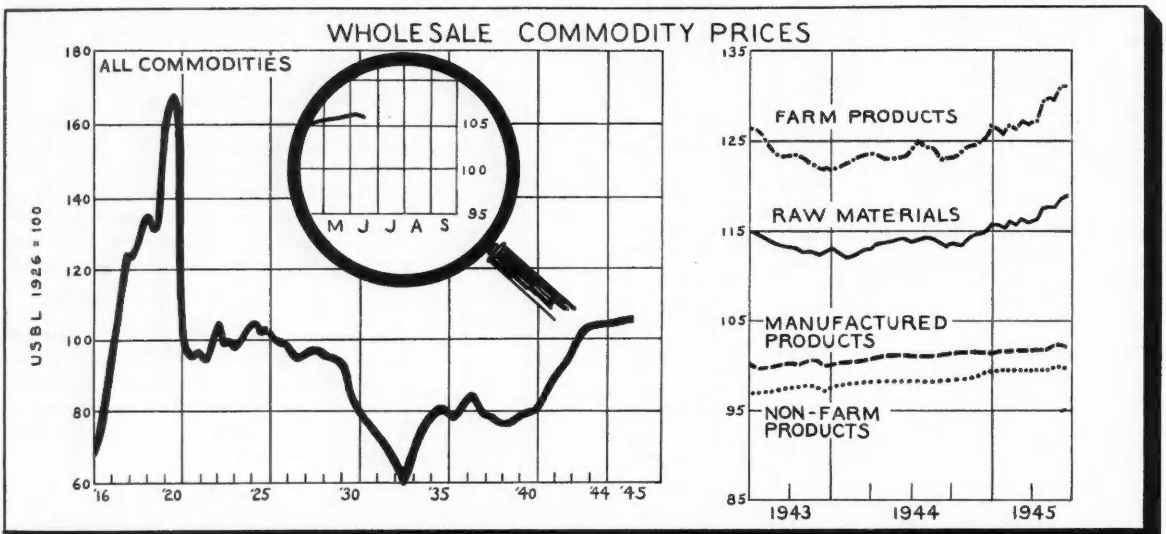
No. of Issues 1925 Close—100)	1945 Indexes High	Low	June 16	June 23
290 COMBINED AVERAGE	132.9	105.0	130.3	132.9Q
4 Agricultural Implements	197.4	160.5	188.7	197.4H
10 Aircraft (1927 Cl.—100)	202.0	156.0	202.0E	200.2
6 Air Lines (1934 Cl.—100)	799.0	559.6	782.7	799.0Z
5 Amusement	92.3	78.9	90.7	92.3P
13 Automobile Accessories	235.3	178.2	226.3	235.3Z
12 Automobiles	46.8	33.8	44.7	46.8H
3 Baking (1926 Cl.—100)	16.6	14.3	16.4	16.5
3 Business Machines	263.5	221.3	255.9	258.8
2 Bus Lines (1926 Cl.—100)	160.8	123.5	150.9	151.9
4 Chemicals	207.7	189.2	204.7	204.2
4 Communication	87.0	73.5	86.6	87.0J
13 Construction	53.1	42.3	52.8	53.1H
7 Containers	328.5	276.5	328.4	328.5H
8 Copper and Brass	84.5	74.8	80.8	84.5D
2 Dairy Products	57.8	47.6	57.8	57.6
5 Department Stores	54.0	39.8	53.8	53.9
5 Drugs and Toilet Articles	157.2	117.6	150.3	150.7
2 Finance Companies	265.3	222.1	264.2	265.3E
7 Food Brands	162.7	134.5	159.1	161.0
2 Food Stores	67.6	56.1	66.1	64.9
4 Furniture	98.0	81.6	93.3	94.2
3 Gold Mining	1158.0	938.3	1095.0	1158.0F

(Nov. 14, 1936, Cl.—100)	High	Low	June 16	June 23
100 HIGH PRICED STOCKS	86.31	73.59	85.56	86.31H
100 LOW PRICED STOCKS	156.15	112.22	151.38	156.15Y
6 Investment Trusts	54.8	44.7	54.2	54.8H
3 Liquor (1927 Cl.—100)	556.5	391.0	524.9	556.5Z
8 Machinery	174.5	137.5	174.5H	172.6
2 Mail Order	120.8	96.7	118.8	116.8
3 Meat Packing	92.7	68.6	92.7H	91.9
11 Metals, non-Ferrous	180.3	149.0	176.1	180.3F
3 Paper	23.9	18.9	23.9H	23.7
22 Petroleum	167.1	142.5	161.4	164.8
19 Public Utilities	84.8	55.4	83.8	84.8H
5 Radio (1927 Cl.—100)	32.4	27.5	32.4J	31.5
7 Railroad Equipment	83.3	68.9	80.6	83.3H
21 Railroads	37.5	22.8	36.3	37.5H
2 Shipbuilding	115.6	96.6	107.2	103.7
3 Soft Drinks	443.6	402.9	406.3	408.1
12 Steel and Iron	100.6	82.8	96.9	100.6F
3 Sugar	68.0	55.2	68.0R	66.7
2 Sulphur	212.4	173.5	203.0	202.2
3 Textiles	87.9	58.5	84.7	87.9H
3 Tires and Rubber	38.3	34.0	37.6	38.3Q
5 Tobacco	79.0	67.5	78.0	79.0E
2 Variety Stores	287.4	255.6	275.9	275.6
21 Unclassified (1944 Cl.—100)	126.1	100.0	121.6	126.1A

New HIGH since: A—1944; D—1941; E—1940; F—1939; H—1937; J—1936; P—1931; Q—1930; R—1929; Y—Nov. 14, 1936.
Z—New all-time HIGH.

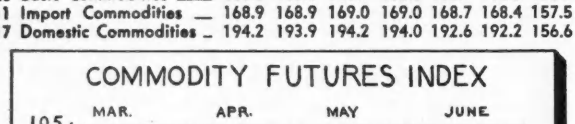
Trend of Commodities

Spot commodity price indexes remained virtually unchanged since our last issue, while futures soared to new war-time highs under leadership of rye. It is estimated that over half of the 10 million bushels of cash rye in the North American visible supply is earmarked for export or under contract to distillers. As the OPA has announced that corn ceilings will not be raised in the near future, a 20-year high on rye upon which there is no ceiling has brought much grain to market which otherwise would have been fed to livestock in lieu of corn. So, until the new crop comes in, there will be more rye and less corn available than earlier estimates indicated. On June 1, the Government predicted that 2,246,000 of 4,726,000 acres planted to rye would be harvested and the remainder plowed under or fed to livestock. Should present attractive prices hold, there will be more rye marketed in the coming crop season than envisioned by this estimate. Favorable weather is helping the new corn crop, despite late planting; yet only 3 billion bushels may be harvested this year compared with last year's record 3¼ billion. Federal price controls make it more profitable to feed corn to livestock than to market it as grain; so that purchases by distillers and exporters have been prohibited. Cotton prices eased a little since our last issue in response to Congressional action in authorizing the President to cut tariffs 50% under Jan. 1 levels. Great Britain's Minister of Food warns that the world food shortage, especially of livestock products, may last for three or four years.



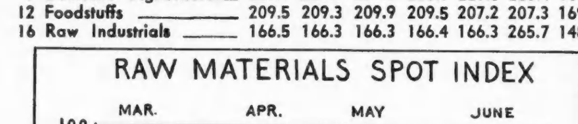
U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

	Date June 23	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1-Yr. Ago	Dec. 6 1941
28 Basic Commodities	183.8	183.6	183.9	183.8	182.9	182.5	156.9
11 Import Commodities	168.9	168.9	169.0	169.0	168.7	168.4	157.5
17 Domestic Commodities	194.2	193.9	194.2	194.0	192.6	192.2	156.6
7 Domestic Agricultural	227.9	227.9	229.0	226.9	223.5	223.4	163.9
12 Foodstuffs	209.5	209.3	209.9	209.5	207.2	207.3	169.2
16 Raw Industrials	166.5	166.3	166.3	166.4	166.3	265.7	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	101.70	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.2	97.6	96.0	89.1	85.7	78.3	65.4	91.5
Low	96.7	94.9	89.3	86.1	74.3	61.4	57.5	64.7

Reappraisal of the Shoe Companies

(*Continued from page* 379)

tion and in this respect, the outlook now is improving. The army has already announced a 10% cut in its requirements for the third quarter and reports are current that an additional cutback of perhaps 12% may be applied to the final quarter of the year. The proposed discharge of 2 million men from the army provides one clue to these cutbacks, and service shoes rather than combat footwear will probably be required by the Army of Occupation in Europe. Furthermore the highly destructive impact on footwear of jungle fighting in the Pacific may be greatly eased if and when warfare becomes centered upon the continent of Asia or in Japan proper. Domestic supplies of hides show signs of a possible increase. Combining all these potentials spells a good chance of easing or eventual elimination of shoe rationing before many months elapse.

The largest factor in the shoe industry is International Shoe Co., a highly integrated organization with a simple and strong financial structure. Seven tanneries owned by the company provide 70% of sole leather and about 60% of uppers required by its 45 well decentralized factories, capable of turning out some 200,000 pairs of staple shoes per day. How well this concern is entrenched in the trade is apparent by the fact that 70,000 retailers regularly carry ISC shoes. Men's, women's and children's shoes are included in the output, some being sold under a number of trade names and others going to chain stores under special brand names. 1944 volume exceeded $156 million and net earnings per share on the one class stock were $1.78, or two cents under dividend requirements amounting to $1.80 per share. As current assets of $72 mllion are nine times current liabilities of $8 million, liberal dividend payments are well warranted. At recent price for the common of 41, the yield is about 4.5%, not unattractive but the price-earnings ratio of 23 to 1 appears rather fancy in the absence of any clear growth potentials.

Endicott-Johnson is one of the largest and oldest shoe manufacturers with net sales of over $95 million reported for the year ended November 30, 1944. Plants of this concern, located in three New York communities, produce nearly all types of shoes as well as rubber soles and heels. Efficiency in production has led to the company's choice by the Government to operate a $2.3 million plant built by the Defense Plant Corporation for the production of rubber parts for military footwear. To meet Army demand for shoes alone required 60% of plant capacity suited to production of this kind.

Working capital of Endicott-Johnson rose by a million dollars last year to above $33 million, and the current ratio is better than four to one. 1944 earnings applicable to the common stock amounted to $3.34 per share, out of which $3 per share was paid in dividends. At current market price of around 70, dividend yield is 4.4%. While enhancement potentials are probably limited, the common has attraction on a semi-investment basis.

Florsheim Shoe Co. is a maker of quality footwear and sells not only to 6,000 retailers but also to its own chain of 95 stores. The concern's four Chicago factories have a daily capacity of about 14,000 pairs. Working capital is ample with large holdings of cash and Government securities. With the exception of one year, dividends of not less than $2 per share have been paid on the Class A common in every year since 1936 though earnings have been somewhat erratic. In view of good longer range prospects and the liberal dividend record, the Class A common, yielding 5% on basis of current market price of 40, has a measure of investment appeal. Selling at a ten-year high, however, the stock's appreciation potentials are probably no more than average.

Brown Shoe Co. is the third largest shoe manufacturer with a favorable earnings record and unusual stability of dividend payments. The latter since 1938 were $2 per share; in preceding years, disbursements were $3. The company is well entrenched and products are handled through about 20,000 retailers, some 350 of which are exclusive Brown agents. Sales of women's shoes normally account for over 50% of the total

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Windfalls for Selected Companies

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concerns they will be numerous, that any form of tax credits will be unusually welcome, as availability of cash might well prove to be a make or break factor in their struggle to survive transition in sound condition. Thousands of small subcontractors already stripped of war orders and frantically rearranging factory floors to resume regular output will view with satisfaction their new opportunity to charge these legitimate expenses against their taxable income. Less worried stockholders in large and rich concerns confident of carrying through the transition period regardless of their established reserves will be glad to note the enhanced prospect of earnings somewhat better stabilized by the tax credit at a time when temporarily even red ink may otherwise appear in an income statement.

Tax officials of course have been able to define deductible reconversion expenses only in rather broad terms, and in like manner it is only possible to present herein the general outlines of potential benefits arising from the charge-off privilege. The main idea is to consider as business expenses deductible from taxable income the cost to a manufacturer of restoring his plant to its original condition before conversion to purposes of war production. Many of the machines essential to normal production underwent radical alteration, were moved in accordance with changed layouts or in many cases removed from the factory floor and placed in storage. The expense of reversing this process to regain normal operating efficiency from now on may be charged against pretax income. On the other hand, costs incurred to expand facilities or to diversify production compared with the situation existing when military output disrupted the original layout, must be capitalized and depreciated in future years in line with standard accounting practice. If the process of resuming civilian production involves the permanent abandonment of a plant or its equipment, a sum equal to its "useful" value may be construed as a deductible expense.

It may be rightly surmised that many hairline interpretations will be needed as time goes on in order to distinguish between deductible and nondeductible expenses so broadly defined above, and many an argument is likely to arise among the tax experts on the subject. By and large, the general idea is clear and its application to income tax reports will result in substantial additions to net earnings. As long as the present Excess Profits Tax remains in effect, peak benefits from the new tax credit will accrue, but any downward alteration in EPT will of course lower the amount of tax saving correspondingly. Also, if EPT were to be completely eliminated, the "carry-back" privilege provided by the Tax Act would lapse. For these reasons the new tax rulings will most strongly benefit concerns currently in the process of reconversion or able to pass through the ordeal before tax rates decline with the advent of peace or EPT starts to fade into the background. By the same reasoning, concerns now in the highest EPT brackets stand to gain more dollar advantages proportionately from the new rulings than those subject only to normal and surtaxes. EPT, all considered, may still find a rank among those unsuspected "blessings which brighten as they take their flight".

It is important to bear in mind that tax savings under the new ruling will apply only to those segments of our economy importantly engaged in war production, and even here gains to individual companies will vary widely according to the expense and nature of their conversion activities. For instance, take the food industry with its huge volume of war orders but with no material amount of reconversion expenses in view, or the producers of chemicals, tobacco products or rubber, all more or less engaged in regular production and ready to continue peacetime operations with little or no interruption of schedules; potential savings due to reconversion expenses will be almost meaningless to these. The aircraft industry, operating largely in Government-owned plants, likewise appears to have relatively minor advantages in prospect from expenses of transition although its reconversion problems are of the greatest magnitude. From all quarters come reports of aircraft makers planning to take up the shock of war termination by diversifying into production of everything from railroad cars to radios and refrigerators. But, as has been pointed out, none of the huge costs arising from these diversification attempts will be construed as deductible business expenses from the viewpoint of the tax collector.

Stockholders of automobile concerns, on the other hand, may benefit extensively through the new ruling. This industry, as everyone knows, underwent an enormous upheaval in its change to production of aircraft, tanks and guns, and corresponding time and expense will attend its return to normalcy. Practically all the heavy machines and tools now on factory floors will have to be removed and enormous quantities of equipment hauled from storage for replacement upon production lines. At least six months of very expensive work will foot up to millions of dollars which will qualify as legitimate deductions from taxable income. A glance at the appended table will disclose what ample reserves some of the more important concerns in this industry have established to finance the emergency, and now that the expenses which they were intended to meet have begun to become actualities, the cash outlays as defined by the tax authorities can be charged against current earnings rather than against reserves, leaving the latter intact to a greater extent than probably thought likely at any time.

In some quarters it is optimistically predicted that expenses of reconversion may not absorb all of the large reserves set up by some concerns, in which event better treatment of stockholders might ensue after time has established the facts. General Motors, as an example, has postwar reserves of $76 million and if its reconversion costs proved to be less than this amount, just so much extra cash would become available for any purpose other than that originally intended. But assuming that expenses of restoring its plants tallied up to the full amount set aside and that they came within the definition of the tax bureau, if present high tax rates remained in effect during the period, taxable earnings would be reduced by $76 million on which the tax saving would be 85½% or about $56 million. From either aspect, therefore, some kind of a windfall to stockholders is a possibility when the reconversion atmosphere clears up, although of course multiple uncer- (*Please turn to page* 394)

Reappraisal of the Shoe Companies

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which consists mainly of low and medium-priced footwear. The company's 23 factories with a capacity exceeding 67,000 pairs daily are all located within 300 miles of St. Louis. While over the longer term, profits may be variable and little long-term growth is likely, immediate postwar potentials should benefit from heavy civilian demand. On this premise, the common has moderate attraction though the dividend yield has been narrowing as the market price of the common rose to its highest since 1937.

General Shoe has a satisfactory earnings record and past dividends have been fair. Yield at present is 4.2% but the price-earnings ratio of about 25 to 1 would seem to dim somewhat future enhancement potentials. The stock appears to be somewhat more speculative than other leading shoe company equities because the company is less well established in its field. Any improvement in trade position due to postwar expansion plans may enhance growth prospects, a factor apparently discounted at least partly by the current price of the common.

Equities of most shoe companies are now well above their 1943 highs, in most cases close to or around 1937 levels, hence on the whole they do not afford outstanding appreciation possibilities. However, favorable postwar prospects and—for the most part—stable earnings records give the majority at least moderate appeal, especially in view of satisfactory yields from dividends generally considered secure, though probably no spectacular growth in volume or earnings may be anticipated.

Windfalls for Selected Companies

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tainties preclude anything in the nature of precise predictions.

Reconversion expenses of different concerns in the same industry will vary greatly, and where diversification of products is involved, the picture becomes further clouded. For instance, such a large proportion of Studebaker's military output comes off from its regular assembly lines that costs of resuming civilian production will be relatively light. As for Nash-Kelvinator, reconversion expenses will be held down measurably where war production has been effected in Government-owned plants, although where company-owned facilities have to be readjusted to make cars or refrigerators, tax-deductible costs will arise. While established reserves of both the above mentioned companies are probably conservative, they are not so large as to suggest over-liberality, but, as in all cases discussed, gains are certain to be won from the new tax credit privilege.

Large manufacturers of electric equipment are sure to benefit extensively by such tax reductions. Both General Electric and Westinghouse are so broadly diversified in their normal output that to attempt to guess at their reconversion expenses likely to qualify under the new ruling would be a futile gesture. Where production of heavy equipment is involved, little or no reconversion expense will occur, but the cost of reconverting to manufacture of refrigerators and lighter electrical devices could run into a good deal of money. General Electric has set up reserves of $15 million for reestablishment of normal production and Westinghouse has over $33 million set aside for this purpose. In the case of both these strong concerns, each with working capital of over $200 million, adequacy of these special reserves is an entirely unimportant question, and as far as this article is concerned, mention of postwar reserves is made only with the suggestion that they might prove over-ample. There is little doubt of the financial ability of most of the larger concerns to weather the reconversion storm, and with extra cash resources provided by the tax measure, the position of stockholders is importantly enhanced, as necessity for part of the reserves will be decreased.

In the appended table we have included only a few groups in our economy likely to experience more than average costs in resuming regular production, listing some concerns in each segment to show how differing policies and conditions have established postwar reserves largely for reconversion purposes. The steel industry, in reconverting, has a problem mainly centering upon replacement or adjustment of heavy rolling equipment. The rug and carpet makers will require considerable replacement of looms in abandoning production of duck. Manufacturers of sewing machines or watches have been heavily involved in production of precision instruments for military use and will require elaborate readjustment of their layouts. In all of these cases and in many more which could be mentioned, the privilege of charging substantial costs against taxable earnings is certain to swell their cash holdings or avoid temporary deficits.

Summing up, the point we hope to have made clear is that as a "penny saved is a penny gained", tax savings permitted by the new ruling in some cases may bolster cash balances to a point where some overflow could be diverted to stockholders in due time as a reward for over-cautious retention of cash from earnings in war years. If not, net earnings in any event should reflect the gain.

What of Bank Stocks?

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earned on trust and custody accounts plus profits on securities sold and other unspecified sources. Reflecting minor dependence upon the traditionally important source of revenue from interest on loans, these banks obtained only 26.6% of their 1944 income from this source, in contrast with 55.1% received from interest or dividends from securities in their portfolios, the bulk of the latter of course being of a Governmental character. Further savings have naturally been achieved by the enforced elimination of interest payments upon all demand deposit accounts and the slicing of interest rates paid upon time deposits; banks in this same group paid an average rate of only .7% to their time depositors in 1944.

Investor interest in bank stocks generally centers upon the old and strongest institutions in our larger cities, particularly in New York City. Local conditions vary to such an extent, that while innumerable good opportunities doubtless exist for investment in this class of securities in many

localities, only the most searching analysis could establish their individual mert. Even in the nation's great banking centers, conditions variously differ from the larger over-all picture of the country as a whole, and marked variations in policies and operations give distinct individuality to many leading banking institutions. The accompanying table presents statistical data relative to a number of important New York banks, along with a few others in Boston, Philadelphia, Chicago and San Francisco. Many other equally strong institutions located in these latter and other cities could of course be mentioned, but space precludes a presentation of their figures.

Illustrative of circumstances differing in various sections of the country, member banks in the New York Federal Reserve district in 1944 invested 56.3% of their totals assets in Government securities, the Chicago district leading the country with a percentage of 60.2%, with the Atlanta and Dallas districts tied with a percentage of 47.9% in this respect. And even in a single city or Federal Reserve district, earnings of banks in different classifications vary considerably, those of the twenty leading banks in New York City averaging 9.8% on their capital funds compared with 8.1% for 34 smaller banks in the metropolis, and from 10.2% to 10.4% for outside banks in the district.

At this point it might be stated that banking profits, although substantially increased during the war years, still fall somewhat short of equalling records established prior to 1929, although today they are likely to enjoy more permanent qualities. Member banks in the New York district also experienced the lowest percentage of taxes paid in relation to net income of the twelve Reserve districts in the country, or 1.9% compared with 19% for the

Boston city district and an average of around 10% for the others in the group, although the percentage of total earnings left for final net ran fairly even throughout the entire country, the range being from 39.2% for New York to 28.9% for the Dallas district.

The largest bank in the country is the Chase National Bank of New York with capital and surplus or reserves of some $292 million and with deposits topping $4.4 billion. For the last 66 years this bank has never failed to pay a dividend, yet its surplus and reserves are carried at $181 million. Business of the bank is widely diversified, and through its more than 30 branches in New York City and strongly established offices throughout the world, it has a tremendous turnover of funds. From the table it will be noted that of its earnings assets 73.2% are invested in Government securities. At the current disbursement rate of $1.40 dividends on the stock produce a yield of just over 3.1%, based on the recent price of 44⅛; it must also be borne in mind that in 1944 an additional $1.61 per share of earnings was retained in the business. The price-earnings ratio of 14.6 appears moderate compared with that of innumerable industrial issues with far less strong fundamentals.

Next in size is the National City Bank (New York) with capital funds of $230 million and deposits of $4.1 billion. 65 branches in New York City and others in foreign countries, chiefly in Latin America, combine to round out important corporate and individual banking business of worldwide scope transacted by the main office. The bank does a large business in renting safety deposit boxes and controls all shares of the Farmers Loan and Trust Co. Dividend rate on the common was recently raised to $1.30 from $1 paid in several previous years, continuing an unbroken dividend record for 131 years. The yield of 2.1% at recent price for the stock around 46⅛ is of course low, as is characteristic of prime bank stocks at present, but offsetting this factor is the equally low price-earnings ratio of 11.5, and a book value only about $9 per share below the selling price. With about three quarters of its earning assets invested in Governments, fundamental values are decidedly enhanced. It will be noted from the table that earnings for 1943 are shown as $6.28 per share but this resulted largely from recoveries from reserves to the extent of $3.70 per share.

Guaranty Trust Co. is the third largest bank in the country, with deposits of $3.1 billion and capital funds of $295 million. During 60 years it has never failed to pay a dividend, distributions for some years past having been at the rate of $12 per share. At the current price of about $359 per share, the yield is 3.3% and the price-earnings ratio 14.9. This bank has always strongly featured its trust business, a department which importantly bolsters its earnings. Like the other large banks, a major percentage of earnings assets is represented by Government securities. Net earnings of Guaranty Trust soared to $24.03 per share in 1944, the fourth consecutive year that the trend has been upward.

Manufacturers Trust Co., while doing a large business with corporations, also makes a specialty of handling small accounts and to facilitate this program was absorbed a number of smaller banks in past years and maintains a large number of neighborhood branches. Net earnings have been exceptionally stable for a number of years past, rising to $4.86 per share in 1944. Unlike a great many banks, Manufacturers Trust has outstanding an issue of $7.7 million 2% preferred stock prior to $32.9 million common, the resultant leverage factor is naturally very slim. An unbroken dividend record for 36 years has been established for the common and ample earnings coverage over dividends is apparent, amounting last year to 2.4 times the needed amount. At recent price of 66¼ the yield afforded is 3%, while a price-earnings ratio of 13.6 is not unattractive for a stock of this quality. It will be noted that with this bank also, Government bonds largely predominate in its investment structure.

It is perhaps unnecessary to comment on the other strong banks listed on the table, although their individual characteristics stand out in a manner which the bare figures cannot reveal. The outstanding facts applicable to the entire group are their important reliance upon Governments securities to produce and insure really excellent earnings in the face of current low interest rates, and a proven ability to pay dividends in good years and bad (in the case of the First National Bank of Boston for 160 years).

While yields on the better bank stocks are low, shareholders in this category have traditionally benefitted from stock dividends or opportunities to buy additional stock with dividends continued at the old rate, and at prices frequently productive of almost immediate profits. During a number of years past, banks generally have been reluctant to issue new shares, preferring to build up their resources by diversion of a major portion of earnings to reserves or surplus rather than to stockholders, but in recent months declaration of stock dividends has shown a marked increase and improvement in dividend rates has not been uncommon.

At the conclusion of war, in view of the huge amount of Government debt which is likely to remain outstanding for a long time, it appears probable that deposits also will remain at a high level, permitting retention of correspondingly large amounts of Government securities by the banks. Private borrowing during the reconversion period is likely to increase measurably, and interest from loans of this nature should well sustain or increase bank earnings. As the trend of risk loans starts upward, capital requirements of the banks will undoubtedly involve important offering of new stock.

The trend of 1945 earnings is reported upward over 1944, and when Government borrowings have finally been completed, deposits naturally should assume record proportions. On the whole, while prices for bank stocks lately have been quite strong, their relatively moderate price-earnings ratios suggest that postwar potentials still have been inadequately discounted.

Investment Audit of Alleghany Corporation

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cult to gauge, but is probably not very large. Due to long-standing litigation, it is doubtful whether any income is being taken down from the North Kansas City properties. Only $145,945 was received from Pittston Company last year (representing preferred divi-

dends) though that company's earnings amounted to $1,527,000 (Alleghany owns 46% of the preferred stock and 43% of the common).

Probably Alleghany's total income based on present holdings might be in the neighborhood of $2,500,000. Expenses and fixed charges under the new set-up might amount to $700,000, at a rough guess, leaving about $1,800,000 (plus any trading profits) available for preferred dividend requirements, which approximate $4,000,000. Last year the common stock was reported to have earned 61c a share, but this was due to inclusion of a non-recurring item of $4,829,052—profits on the sale of a large block of C. & O. stock. It is unlikely that there will be any such sizeable item in the 1945 statement.

As indicated in the accompanying table, Alleghany's portfolio, adjusted for the sale of nearly half its remaining Chesapeake & Ohio and valued roughly at recent market prices, seems worth about $70,000,000. At the end of 1944, long-term debt amounted to $39,000,000 but this has now been reduced to approximately $10,718,000 bank loans. This leaves about $59,000,000 estimated asset value applicable to the preferred stocks. The $2.50 prior preferred is redeemable at 50 plus the arrears of about $27, or a total of $77. The stock is currently selling at 67, although it has never received any dividends. Deducting the total amount to which these stockholders would be entitled in dissolution (about $8,600,000) there would remain about $50,000,000 applicable to the $5.50 preferred. Since there are 667,539 shares outstanding, the liquidating value per share works out at about $75 per share. With the stock currently selling at 58, there would appear to be some further appreciation possibilities in this issue.

What are the possibilities for dividend payments' The company has now reduced its debts so drastically—from $85,000,000 in 1930 to $39,000,000 last year and $10,718,000 currently—that consideration should soon be given to the rights of preferred stockholders. In view of the large arrears a plan of recapitalization would be in order, or at least a retirement of the prior preferred issue. One difficulty with any overall recapitalization plan would be possible loss of control by the Young-Kirby group. It would probably be necessary to give preferred stockholders either additional preferred, or some common shares, to compensate them for the substantial dividend arrears. Each issue of preferred stock already elects two directors, giving the two groups four out of nine directors.

Within two or three years the railroad bond portfolio should become income-producing and further price appreciation also seems probable, as the various companies complete their reorganizations and initiate dividends on their new stocks. By this time the position of Pittston may also have improved, and sale of the North Kansas City properties may have been consummated. The bank loan may also have been paid off. It is possible, therefore, that payments on the preferred stocks may be deferred for a while longer, and no plan of recapitalization attempted until the company is fully "squared around."

Alleghany Corporation's troubles with regulatory authorities now appear to be behind it. There have been several moves in Congress at different times to enact legislation for the regulation of railroad holding companies (probably aimed at Alleghany) but these were not fully consummated. However, the ICC began an inquiry in February, 1944 to determine whether Alleghany and its top officers, Messrs. Young and Kirby, had acquired control of C.&O., the Nickel Plate and the Pere Marquette in violation of a section of the Interstate Commerce act which declares it is unlawful for a non-carrier to acquire control of one or more railroads without commission authority (C. & O. now owns 69% of Pere Marquette, 57% of Nickel Plate, and 67% of Wheeling & Lake Erie).

But the commission recently gave Alleghany a clean bill of health. The decision was based on certain proposals made April 13th by Alleghany, with a view to disposition of the proceedings "without litigation". Alleghany and C. & O. agreed to deposit their holdings in the Pittston Company (which among other interests owns all the stock of the U. S. Trucking Corp.) with Empire Trust Company of New York as independent voting trustee. Interlocking directorates among the

three companies would also be terminated. Voting stocks of other railroads would similarly be deposited with independent trustees, with the exception of C.&O. and Missouri Pacific; presumably this would apply to Pere Marquette, Nickel Plate and Wheeling.

Alleghany will also in future be considered a carrier, under direct supervision of the ICC. In its decision, the Commission went out of its way to praise the present management of Alleghany, stating that it "has been very much interested in the operating efficiency and character of public service rendered by the Chesapeake & Ohio, Nickel Plate and Pere Marquette. The records show that the three railroads are today operating at a level of efficiency higher than that of the average of Class I railroads as a whole, and that all three have constantly kept ahead in this respect for at least the past twelve years." This record might be attributed to the "judicious expenditure of large sums of money on physical improvements and to the fact that efficient, alert, and forward looking management has been installed and maintained."

The Commission also mentioned that Alleghany's directors could be given credit for starting a voluntary debt retirement program for the three railroads, for using competitive bidding for refunding operations, and for reducing the number of corporations in the Alleghany system from 263 to 59. Moreover, Alleghany has taken care of its financial requirements out of its own resources without resorting to financial assistance from any of the controlled carriers or other companies in the system.

Summarizing, Alleghany Corp. has vastly improved its financial structure and status during the past decade. But in so doing, its securities have lost much of their "high leverage" character. The first preferred stocks still appear to be undervalued, though if they have to wait another year or so for dividends or liquidation, discount factors must be taken into account. The common stock remains substantially "under water" and might be scaled down considerably in any future recapitalization. However, since the present controlling group is a very substantial holder of the common, they will naturally wish to protect their interests in any future developments. While the common does not appear attractive statistically at its current level around 5 (it has doubled in value this year), it still retains a fair degree of speculative leverage and with a continued buoyant rail market might enjoy further appreciation.

Opportunities and Hazards In the Gold Stocks

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go still higher on uninformed investment and speculative demand. In this writer's carefully considered judgment, none is an outstanding bargain, for longer-term holding, at present prices. Some of the mixed situations—not gold companies but mines with a strong gold side-line—are probably more interesting on a price basis. Examples are Hudson Bay Mining and Howe Sound, particularly the latter.

Decentralization Trends in American Industry

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plant operations to a new location? Will you need a new plant for your postwar products? Should you decentralize in order to be closer to markets? These are questions all industry is asking but the answer (one that will prove correct in the future) will not always be easy to arrive at. There will be no lack of new plant facilities. With the end of the war, thousands of new plants,—mostly Government-owned — will be available in virtually all sections of the country and the temptation to acquire and operate them will be great. Unfortunately, their location and general operating characteristics are not always the best from the standpoint of peacetime operation, or peace-time markets; hence to assume that postwar industrial decentralization will follow the pattern of wartime Government-sponsored expansion would be erroneous indeed. Availability of Government plants, there is no question, will be a factor stimulating decentralization but only to the extent that it ties in with economic realities and vital operating and marketing considerations.

Broadly speaking, industrial decentralization can be said to be on the march—wherever practical and desirable; thus undertaken, it can contribute importantly to future economic and social stability of the nation. Unwisely undertaken, it could create serious difficulties but this danger is slim. American industry in moving towards greater decentralization is moving cautiously and deliberately, ever conscious of both the advantages and limitations presented. Decentralization by natural evolution is a sound and desirable prospect; the same can hardly be said of decentralization under pressure, if contradicting economic realities or undertaken at a forced pace that may spell dislocation rather than stability.

Postwar Controls for Business

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At the request of the Army and Navy, trial of 25 cases was deferred until they can be prosecuted without risk of hampering the war effort. Now the Department is drafting a broad program designed to foster untrammeled competition in virtually every field of trade and industry, with particular attention to new basic industries such as light metals, plastics and electronics which have grown up during the war period. Any efforts to restrict production, fix prices, divide markets or withhold from consumers the benefits of technological advances will bring down the anti-trust ax as soon as the wartime restraint against prosecutions has been lifted.

Cases pending in the field of international cartels involve synthetic rubber, optical glass, chem-

icals, plastics, electric light bulbs and medical instruments. Some of our largest manufacturers are co-defendants in these suits. Clearly, there will be no truce on cartels. Aside from the 26 major cases listed, many more in all stages of development are in the anti-trust division's files. Patent pools, particularly, will be watched and the crusade on restrictive patent agreements will continue full-tilt alongside the new drive against cartels.

At home, anti-trust actions will be pressed in numerous directions. They will be aimed at segregation of motion picture theaters from producers, at breaking up an alleged monopoly in the manufacture of flat glass. Other actions charge monopolies and illegal combinations in sand and gravel, in heating equipment, surgical supplies, plumbing supplies and watch making. Recent cases involve such products as elec-

trical equipment, stainless steel and storage batteries. On the docket for early institution of proceedings are said to be the makers of railway equipment, water purification equipment and others. Building construction is another industry which the anti-trust division has earmarked for particular attention. The Department, like other Government agencies, believes that construction will be the key to successful reconversion and postwar prosperity. Hence it will keep a weather eye out for restrictive practices which might boost prices, depress volume and get the industry off to a slow start.

Of the cases initially held up at Army request, the Justice Department considered four sufficiently important to seek, and get, presidential permission to prosecute them over the objections of the military. One involves National Lead Co. which is charged with participation in an international titanium cartel. Others involve duPont (plastics), Rohm & Haas Co. (plastics) and the Bendix Aviation Corp. (aviation instruments. A hotly contested suit also is pending against 47 railroads, charging an illegal combination to fix rates.

Anti-trust laws, moreover, are to be the lever by which the Justice Department expects to make surplus property disposal, patent law administration and sales of alien properties conform to a business policy that will promote competition and stifle combinations. The demobilization and surplus property disposal bills give the Department exactly what it wanted—a mandate to make sure that reconversion is carried out in the fullest interest of free competitive enterprise. The Justice Department has to approve in advance the sale of industrial facilities costing more than $1 million; this supervisory power will enable it to see that new enterprises rather than "vested interests" take over the new war-time plants and facilities in such fields as light metals, chemicals, synthetic rubber, aviation gasoline, aircraft, radio and electrical equipment.

Sales of surplus equipment are also closely scrutinized by the Justice Department in order to forestall distribution monopolies by individuals or corporations.

The anti-trust division's patent activities will be furthered by the fact that the Justice Department will have an opportunity to review surplus sales of patents, processes, techniques and inventions, irrespective of their cost. Patent-busting will pick up momentum as reconversion rolls along, for the Department regards a free patent structure a requisite for a truly competitive postwar economy. The Government is actively encouraging small business and new enterprises to snap up enemy patents seized during the war. It means to see to it that the big advances made in domestic technology during the war do not result in an upsurge of monopolistic patent pools a few years hence.

While anti-trust is chiefly executive in function, it is also judicial and legislative in character. In the light of its intended postwar role, it becomes an important instrument of policy, in this respect perhaps hereafter transcending its original functional characteristics in importance. That policy is creation of a new pattern of economic development, and strengthening the existing pattern; the ultimate aim is reversal of the trend towards concentration of industry and fullest exploitation of the productive and employment potentials of our war-expanded economy.

With the latter goal, industry has no quarrel but it strongly disagrees as to the methods employed. It would rather attempt the task with a minimum of official interference. The South and the West, for obvious reasons, have always been strongly anti-monopoly minded. The East, and the major industries affected by the anti-rust crusade — are protesting; they deplore what they consider the disruptive influences of militant trust-busting which they argue makes it impossible to cooperate fully in reconversion and postwar planning. The latter no doubt is true, since the anti-trust laws today overhang the future of a surprisingly large number of corporations. It has led to urging earliest possible clarification of the trend of regulation of national economy by redefining in the sphere of private enterprise the "environment" which it is felt is needed to be known for business to thrive and expand after the war.

The domestic policy towards monopolies is of course not in the realm of debate. The Sherman Anti-Trust Act is on the statute books and will stay there. What is questioned by business are the methods, principles and the extent of its application. While anti-trust is only one of the controls that will be used for postwar policing of business, it is a most powerful weapon. For it not only executes law and policy but it also helps make them.

Outlook for Consumer Credit

(*Continued from page* 369)

wards both types of equities, although, as cited before, these potentials may be somewhat slow in developing in line with the step-by-step reconversion process. Dividend yields are fairly generous, and price-earnings ratios, though fairly high in the case of the leading companies, reflect postwar prospects rather than current limited income.

The most difficult period may well be that of initial transition, a period when earnings of the manufacturing interests may be falling off, perhaps rapidly, and instalment sales will be awaiting volume production of automobiles and other consumers' goods. But all companies have exceptionally strong finances; and any transitional earnings decline should be relatively small and of short duration. Some companies are already expanding branch offices and instalment divisions in preparation of the anticipated large volume of business that should eventually develop.

U. S. Role in Postwar Shipping

(*Continued from page* 361)

provided by law, cannot be fixed in advance, it was 30% before the war; it may be much higher in the future, considering the wage levels prevailing today in the American shipbuilding industry. Similarly, according to a bill now pending in Congress, American operators could acquire war-used vessels at heavy discounts, amounting to as much as 50% of original costs with the exact percentage depending on the ship's age.

What, under prevailing and prospective conditions, is the outlook for shipping companies and investors in their equities? Needless to say, it is just as indefinite

as the status of our postwar merchant marine is at this writing.

Charter and management fees paid by the Government at present represent the sole source of revenue for shipping companies normally engaged in overseas and coastwise shipping, since all vessels either have been requisitioned or bought outright by the Government. Early last year, new charter rates and valuations for vessels requisitioned were established by the War Shipping Administration, generally well below those paid by the Army and Navy earlier in the war. In addition, shipping companies are now operating almost entirely on a bareboat charter basis, under which the Government pays all operating expenses, the shipowner receiving compensation which covers little more than overhead costs.

The prospect is that there can be no private operation until at least half a year after the end of the Pacific war. Until then, all United Nations shipping is likely to remain pooled, as at present. With resumption of private operation, the 30% subsidy paid by the Government since 1936 will again accrue to American shipping companies in order to enable them to compete effectively with foreign shippers. Meanwhile, shipping operations will hold at high levels, since VE-Day has not resulted in any marked decrease in demand for shipping. But unless charter rates are raised, earnings henceforth may decline moderately because of rising costs.

Last year, both revenues and expenses declined substantially despite the increased number of ships operated for the Government on an agency basis. Operating income decreased, and with non-recurring profits on the sale and loss of ships down substantially, final net of shipping companies was considerably smaller than the excellent 1943 results. Still, 1944 earnings were materially above the prewar average, in some instances drastically so. Despite prospective lower net this year, dividends are likely to be maintained at current rates, since cash reserves of most companies are large.

In the immediate postwar era, shipping operations should hold at a high level. There will be large movements of troops from abroad and this country will have to provide a substantial proportion of the materials and equipment needed to restore war-stricken areas. But thereafter, the outlook is obscured by the various imponderables described earlier in this article, that is—broadly, the competitive situation and the size and direction of international trade. Barring some clarification, it is virtually impossible to say with any degree of accuracy what may lie ahead.

For that reason, shares of most leading shipping companies are highly speculative despite recent popularity which carried their prices to the highest levels of the war and immediate prewar period.

Among the stronger situated concerns is American-Hawaiian S.S. Co., normally the leading operator of regular freight services between the Atlantic and Pacific coasts. Financially strong and conservatively capitalized, the company's major post-war problem is ship replacement. If the Government sells its war-constructed merchant ships at reasonable cost (and all indications point in this direction), the company should be able to reestablish a strong intercoastal trade position after the war. 1944 earnings were $3.06 per share of which $3 was distributed as dividends. At recent price of 45, dividend yield would thus be 6%. Price-earnings ratio of the stock is 12 to 1, highest in the group. Earnings this year will probably hold fairly well, and in view of the company's large cash position, the $3 dividend should be maintained. Available funds for ship replacement will be large after the war, and expansion of routes is likely. Past earnings have been variable and at times quite large, and dividends have always been liberal. Cash holdings characteristically have exceeded current liabilities by a wide margin.

American Export Lines, normally chiefly operating between New York, Mediterranean ports and India, earned $4.15 per share last year of which $2 were paid to stockholders, making dividend yield 5% at current price for the stock of about 40½. Price-earnings ratio is ten to one. Financially fairly well heeled, the company has already begun building three new cargo ships for postwar trade at a cost of about $3 million. Its subsidiary, American Export Airlines Inc., is one of the leading candidates for transatlantic air routes. In view of somewhat uncertain postwar potentials, the stock appears adequately priced but the good yield no doubt has imparted a measure of appeal for some time past. Potentialities of transoceanic air service may have attracted some of the more speculative-minded.

Atlantic Gulf & West Indies S.S. Lines, through four subsidiaries, normally holds a strong competitive position in the pas-

senger and freight trade along the Atlantic and Gulf coasts, and to Cuba, Mexico, Puerto Rico and the Dominican Republic. Finances are satisfactory but earnings in the past were usually poor (though exceptionally high since the war) and no dividends were paid for years until resumption in 1941 with a $3 payment. Selling only five times 1944 earnings, the common is reasonably priced in relation to war-time earnings and dividends (the latter yielding 7½%), but the uncertain longer range outlook renders the equity highly speculative.

U.S. Lines in the past had to cope with stiff foreign competition on transatlantic routes and operating results therefore were usually poor and unimpressive, despite official subsidies. Government policy will be a determining factor in the long-tetrm outlook. Finances are restricted despite moderately improved wartime earnings, and near-term debt maturities make common dividends unlikely. The general uncertainties characteristic of the shipping industry render the common stock a radical speculation. Relatively high earnings are likely to continue for the duration of the war. If the future of American shipping develops along the ambitious lines earlier discussed, the longer range outlook for the company may well be relatively more favorable than for most others. However, there are many if's.

The company by the end of the year will have nineteen new cargo vessels to replace ships requisitioned by the War Shipping Administration. Last year it agreed to accept some $19 million from the Government in full settlement of its claims in connection with the requisition of the former transatlantic liners Manhattan and Washington. Late in 1943, a minority interest in Pan American Airways was acquired.

Opportunities for Income and Appreciation

(*Continued from page* 384)

STANDARD OIL COMPANY OF OHIO: Directors have called a special meeting of stockholders for July 2nd to take action on the proposal to authorize 400,000 shares cumulative preferred stock of which it is anticipated 200,000 shares would be issued late in July. Proceeds would be used to redeem 120,000 shares of outstanding 5% preferred stock and the remaining 19,471 shares of 4¼% convertible preferred stock and to prepay approximately $4,000,000 in notes which are due over the next few years. The 5% preferred is callable at 107½ and the 4¼% convertible preferred at 105.

TEXAS & PACIFIC R.R. CO.: This company has made application to the Interstate Commerce Commission for authority to issue $39,000,000 of 40 year bonds, the proceeds and treasury funds to be used to retire $40,900,000 general and refunding 5s of 1977, 1979 and 1980.

BRISTOL MYERS CO.: Has filed with the SEC a registration statement covering the proposed offering of 75,000 shares of 3¾% cumulative preferred stock of $100 par value. The purpose of the new financing is to strengthen the company's working capital position and to acquire additional plant equipment and laboratory facilities. Before giving effect to this financing the capitalization comprised only 700,180 common shares of which 690,594 are outstanding.

R. J. REYNOLDS TOBACCO CO.: This company is preparing for its first public financing in more than a quarter of a century by filing with the SEC a registration statement covering an issue of 490,000 shares of preferred stock, $100 par value. The dividend rate is to be filed by amendment to the registration statement later. When the amendment is adopted and the registration statement becomes effective, the company plans to offer to holders of the common stock and class B common stock of record July 5th, pro rata rights to subscribe to the new preferred in the ratio of 1/20th of one share for each share of such other stocks held. These warrants will expire at noon on July 21st and the unsubscribed portion will be offered to the general public immediately thereafter.

AMERICAN ICE CO.: Directors have voted to call for tenders of the company's preferred stock by July 9th at prices not exceeding $100 per share. There are 86,799 shares of the preferred stock now outstanding and the sum of $3,000,000 has been appropriated from the company's surplus for this purpose. The appropriation is to be applied to the purchase of the shares offered for sale in the order of the lowest offering price and if more shares are offered at the same price than can be purchased out of available funds, such funds are to be applied to the purchase pro rata of the shares so offered.

Answers to Inquiries

(*Continued from page* 381)

previous year, Ward M. Canaday chairman recently announced upon the semi-annual report to stockholders. Sales during the six months ended March 31, 1944 amount to $96,465,200.

In commenting on Willys war output, Mr. Canaday said in the automotive division more than 300,000 Jeeps had been delivered, while in the aircraft division more than 3000 center wing sections for the Corsair plane were built. In addition he declared the company continued to produce powder and projectile hoists, for Navy ships, aluminum aircraft forgings, primers and fuses and the American version of the Nazi "buzz-bomb". While shifts in emphasis and volume will occur because of Germany's collapse the chairman said in discussing the period ahead, the outlook at present points to a continued important role for the company in the manufacture of armaments for use in the intensified war against Japan.

"The company's program for peace production of motor vehicles," he continued, "contemplates a flow from war to peace production with minimum standtime and unemployment. We expect to present our first civilian products with very little delay as facilities of war production are relieved."

Willys net earnings for the six months ended March 31 amounted to $1,571,247 compared with $1,558,368 reported for the similar period ended 1944.

Standard Steel Spring Co.

I am thinking of purchasing Standard Steel Spring stock. Will you please furnish information and opinion on this security.

—B. M., Baltimore, Md.

Standard Steel Spring Company: Its business is the manufacture of various automobile parts, including springs, bumpers, universal joints for several producers of passenger and commer-

(*Please turn to page* 404)

Answers to Inquiries

(*Continued from page 402*)

cial vehicles and tractors. Sales and earnings from manufacturing activities promise to average higher than in former years as it has also become a leader in steel gratings and treads. Additionally, earning power is enhanced by the company's development of the "corronizing" process, the application of a protective non-ferrous coating of nickel to steel to prevent corrosion. A large amount of war work is now being handled but the company's president stated in annual report that reconversion of plants to normal products would not be a financial problem for the company as reserves have been set up for postwar adjustments.

Earnings for company amounted to $1.02 in 1944 as compared with $1.09 in 1943 and 83 cents in 1942.

In the first quarter of this year, it showed 33 cents per share vs. 20 cents for the same period of 1944, a gain of over 60%. Net sales in 1944 amounted to $88,-794,000.

Company had no funded debt nor preferred stock on December 31, 1944, capitalization comprising 1,448,423 shares of common stock, listed on the New York Stock Exchange and which has had a price range this year of high; 13½; low 9½, recent 13. Dividends have been paid at varying rates since 1935; in 1944, it paid 50 cents per share.

Consolidated balance sheet as of December 31, 1944 showed total current asset of $45,952,684 of which $15,523,171 was in cash and $2,517,729 in U. S. Government securities. Total current liabilities amounted to $40,921,466, $15,951,131 of which represented advances on contracts. Net current assets amounted to $5,031,-218. Total assets were $49,812,-762.

Postwar sales and earnings prospects appear favorable and the common is recommended at 13 as a speculation with possibilities of enhancement in market value. We would suggest modest commitments at 13 or lower with idea of averaging cost should stock react to 11.

Celotex Corp.

I am a subscriber to your excellent magazine and would appreciate information as to earning and prospects for Celotex Corp.

—T. L., Salem, Oregon

Celotex would be an important beneficiary from any wide demand for prefabricated housing in the postwar period, since the company has been active in the development of this type of building. Recently the company, along with other concerns in the building supply trade, has been hindered by material and manpower shortages, but indicated improvement in this situation has promise for nearby improvements in operations. Sales are reported to be running ahead of a year ago and gains in operating income are also being anticipated.

In view of the large deferred demand for the company's products, volume should continue to expand, which, given some relief in taxes, could mean substantial net earnings for stockholders.

Earnings in recent years have been erratic as evidenced by the following figures:

1940	1941	1942	1943	1944
0.96	2.56	1.55	0.55	0.54

Dividend rate 50c annually.

As I See It!

(*Continued from page 353*)

reports also mention exploratory conversations as to whether Russia will insist on special rights and privileges in Manchuria, in short the sounding out of Moscow about Chinese intentions in Northern China generally.

In the past, the Russian standpoint has been to treat Manchuria and Korea as independent of the Chinese Central Government, thereby reserving full freedom of action. The two Governments thus may not find it easy to see eye to eye in this matter. It may not be wrong to surmise that Soong's trip probably represents a new Chinese effort — with U. S. A. — support, to come to terms with Russia. Since thus far the latter has shown unwillingness to commit herself on postwar questions in the Far East, it remains to be seen whether — perhaps under the impact of new conditions — this attitude has changed.

In appraising the Far Eastern outlook, it must be realized that the problems existing there are no less explosive and complicated than those of Europe. This fact poses the question whether we may eventually be headed for sharp differences with the Russians in Asia or whether compromise is possible.

It may be postulated that any practical Far Eastern policy must recognize that it is just as reasonable for the Russians as for ourselves to be interested in Manchuria, Korea and other territories that lie directly ocross the Soviet borders. Against this can be held that having fought the Pacific War practically single-handed, we can hardly wax enthusiastic over the possibility of seeing in East Asia an all-powerful Russia, one that potentially at least could nullify our Far Eastern policy built on ultimate development of China into one of the world's leading democratic nations and a bulwark against imperialism from whatever direction it may threaten in the future in that part of the globe. It is well-known that Russia, apart from coveting Manchuria and Korea, is deeply suspicious of the Chungking Government; some say she is fearful of Chinese development and industrialization under western tutelage.

In all this may well lie the seeds of future conflict of policy that may complicate negotiation of any Japanese surrender, especially should Russia decide at the last moment to join in our war against Japan in order to obtain a voice at the peace table. But even without such action, she could hardly be excluded from future decisions affecting the fate of East Asia.

Though the present struggle may continue for a considerable time, Japan's leaders must know the hopelessness of their position, that complete defeat can be only a matter of time. Hence they will continue their efforts to effect a deal. It is said that Japanese overtures to China have expressed willingness to yield to her all territory conquered on the Asiatic mainland.

Final decisions will naturally lie in the hands of the U. S. A., Russia and China primarily; while Japan may have preferences, she is in no position to press them. Nor can Russia after her exhaustive struggle against Germany afford a wholly intransigeant attitude. It is not too far-fetched to assume that the entire complex of questions has been and still is the object of intensive diplomatic discussion between the major allies, for obviously, intelligent compromise offers the only solution if lasting peace is to be restored in East Asia.


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